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State Law of Patent Exploitation*

Edward H. Cooper**

Patents scare many lawyers. Mental charts of the law are apt to designate this unexplored territory as a federal enclave, peopled by dragons and serpents of purely federal origin. Even a timid glance into the unknown land, however, reveals the friendly wagging tail of state contract law, both common and statutory. At least a living ghost of state tort law lingers in these lands too. For, surprising as it may seem, it is well established that most aspects of contractual transactions affecting patents are governed by state law. State law has likewise afforded tort remedies for a variety of wrongs by and against patent owners, although the prospects for survival of such remedies against the onslaught of federal preemption seem dim.

The main purpose of the present inquiry is to determine whether second thoughts support or undermine the instinctive supposition that the doctrines surrounding cooperative use of patents should be federal. The original creator of a patented invention is seldom in a position to exploit its commercial potential alone; even if the invention is created by the employee of a vast enterprise, it is almost inevitable that the patent will be assigned to his employer. Patent licensing plays a vitally important role in the development of many inventions. The contract doctrines surrounding such transactions, and various other consensual undertakings relating to patents, can obviously af-

* NOTE: The text of this article has been written for reading without reference to the footnotes. The footnotes themselves have proliferated in unseemly number because it is hoped that readers of quite diverse backgrounds will be intrigued by the questions addressed. The ordinary digression, documentation, elaboration, and interesting snippets furnished by footnotes have thus been expanded to serve both those who are primarily interested in patent law, and those who are fascinated by any complex problem of judicial federalism.

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fect the value of the patent in significant ways. Unduly restrictive state laws, or wide divergences between the laws of different states, could pose a very real danger of unduly diminishing the value of federally granted patents. And conversely, we are repeatedly reminded that there is a strong public interest in ensuring that private arrangements affecting patents not be allowed to make the patents too valuable by improperly increasing the rewards the patentee is able to extract from his statutory "monopoly." To some extent, indeed, misuse and anti-trust doctrines have already federalized the law of patent transactions in response to this second danger. Similar dangers of undue extension or restriction of patent rights, moreover, may be found whenever state courts rule on the scope or validity of a patent.

Given these theoretical threats to paramount federal interests, why should not the entire law of patent transactions be taken over as a new area in the rapidly expanding domain of federal common law? There has never been a deliberate exploration of this question. Instead, the answer was given more than a century ago in decisions defining the allocation of jurisdiction in patent matters between state and federal courts. Much has happened since then in the substance of patent law, in the character and extent of commercial dealings in patents, and in the nature of our perceptions about the relations between state and federal law. Exploration of the question today suggests that on balance there is a moderately persuasive case to be made for federalization of most of the body of contract law affecting transactions in patent rights. The imbalance between the claims of state and federal law is not sufficient, however, to justify preemption by judicial decision. Instead, if federalization is to occur it should result from a political judgment by Congress. Paradoxically, it will also be concluded that the most desirable form of Congressional action would be, not a patent code, but a statute explicitly designed to authorize creation of a federal common law.

These conclusions will be supported in the following pages by an examination of present jurisdictional doctrines and their origins; a description of the general areas in which state law now controls patent exploitation; an attempted sketch of the competing forces pulling toward application of state or federal law; and a suggestion of the reasons for preferring Congressional resolution of the question.

I. STATE AND FEDERAL JURISDICTION IN PATENT MATTERS

A. MAIN LINES OF DIVISION¹

1. *Exclusive Federal Jurisdiction*

Today it is clearly provided by statute that federal jurisdiction is exclusive over all actions brought for patent infringement as such.² Exclusive jurisdiction is ordinarily attributed to suppositions that federal courts possess a greater expertise in the often highly technical questions raised by patent law; that uniform interpretation and application of patent law may be promoted by limiting the nature of the tribunals in which suit may be brought and by easing the availability of federal appellate review at some level; and that there is a strong public interest in correctly defining the limits of the rights conferred by a patent "monopoly" which increases the need for uniformity and expertise beyond the need arising from mere concern with the interests of the parties to the infringement suit.³

However logical and weighty these reasons may seem as a

1. General treatment of the division of jurisdiction between federal and state courts in matters affecting patents may be found in Amdur, *Patent Litigation in Federal and State Courts*, 2 GEO. WASH. L. REV. 35 (1933); Chisum, *The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*, 46 WASH. L. REV. 633 (1971); Note, *The Enforcement of Rights Against Patent Infringers*, 72 HARV. L. REV. 328, 328-31 (1958); Note, *The Jurisdiction of State Courts Over Cases Involving Patents*, 31 COLUM. L. REV. 461 (1931); Annot., 167 A.L.R. 1114 (1947). Cf. M. NIMMER, NIMMER ON COPYRIGHT § 131.11 (1963).

2. 28 U.S.C. § 1338 (1970). Federal jurisdiction over such matters as actions to compel issuance of a patent, direct review of Patent Office proceedings and actions growing out of interference proceedings between rival claimants for patent protection of the same invention poses no problem for the matters discussed here and will be ignored.

3. See Chisum, *supra* note 1; Note, *Exclusive Jurisdiction of the Federal Courts in Private Civil Actions*, 70 HARV. L. REV. 509 (1957). The American Law Institute relies heavily on the expertise of federal courts and on the "federal interest in the monopoly conferred by the patent . . . that is more important than the wishes of the parties" in proposing to maintain the exclusivity of federal patent infringement jurisdiction. See ALI, *STUDY OF THE DIVISION OF JURISDICTION BETWEEN STATE AND FEDERAL COURTS* § 1311(b) at 183 (1968). Somewhat different evaluations of this proposal may be found in D. Currie, *The Federal Courts and the American Law Institute: Part II*, 36 U. CHI. L. REV. 268, 280 (1969); D. Currie, *Suitcase Divorce in the Conflict of Laws: Simons, Rosenstiel, and Borax*, 34 U. CHI. L. REV. 26, 51 n.115 (1966).

The possibility that state judges might be heartily glad to avoid such cases should not be lost from sight. Compare Wright, *Federal Question Jurisdiction*, 17 S.C.L. REV. 660, 663 (1965).

justification for retaining an exclusive federal jurisdiction,⁴ the important point for immediate purposes is that there is very little indication that the original development of an exclusive federal jurisdiction reflected any studied conclusion that state courts should be kept distant from the area of patent law. On the contrary, the determination that federal jurisdiction was exclusive was made by judicial decision long before it was explicitly embodied in statutory form, for reasons which indicate little if any distrust of state courts. This fact may help account for the development of broad state court jurisdiction over matters affecting patents other than infringement and for the concomitant determinations that state law controls such matters. A very brief review of the historic development should serve to illustrate this point.

The first patent statute, enacted in 1790, provided that infringers should "forfeit and pay . . . such damages as shall be assessed by a jury . . . which may be recovered in an action on the case founded on this act."⁵ Modern commentators have viewed this statute as creating either concurrent state and federal jurisdiction⁶ or exclusive state jurisdiction.⁷ The considerably revised patent statute of 1793, however, explicitly provided for recovery of treble damages "in an action on the case founded on this act, in the circuit court of the United States, or any other court having competent jurisdiction."⁸

This clear sharing of jurisdiction with state courts was soon erased. The Act of 1800 provided, among other things, for a different measure of damages, and for an action on the case founded on the Act of 1793 and the Act of 1800 "in the circuit court of the United States . . ."⁹ For a variety of reasons noted below, state courts soon began to interpret this statute as conferring exclusive federal jurisdiction over infringement actions. The statute extending the jurisdiction of the federal courts to embrace equitable remedies for infringement in 1819 provided that "all actions" arising under the patent laws should be cognizable in the federal courts.¹⁰ This language was re-

4. See Part III(B) *infra*.

5. Act of April 10, 1790, ch. 7, § 4, 1 Stat. 109, 111.

6. Note, *Exclusive Jurisdiction of the Federal Courts in Private Civil Actions*, 70 HARV. L. REV. 509, 510 n.2 (1957).

7. Chisum, *supra* note 1, 635-36.

8. Act of February 21, 1793, ch. 11, § 5, 1 Stat. 318, 322.

9. Act of April 17, 1800, ch. 25, § 3, 2 Stat. 37, 38.

10. Act of February 15, 1819, ch. 29, 3 Stat. 481.

peated in the statutes of 1836 and 1870.¹¹ It was only in the Revised Statutes of 1874 that an explicit provision was added stating that federal jurisdiction was exclusive of the courts of the several states.¹²

Deletion of the explicit 1793 authorization of suits in "any court having competent jurisdiction" from the otherwise highly similar language of the 1800 statute offers an obvious ground to suppose that Congress did indeed intend to make the federal jurisdiction exclusive.¹³ State courts were prompt to reach this general conclusion, although for reasons which do not suggest any clear thought that the federal courts had any particular expertise, ability to develop uniformity of doctrine, or position to protect the public interest.¹⁴ To be sure, some emphasis was placed on the inappropriateness of exercising the statutory power to declare patents void,¹⁵ but the fact that state courts were concurrently exercising that power in cases other than infringement actions¹⁶ demonstrates that no particular import-

11. Act of July 4, 1836, ch. CCCLV, § 17, 5 Stat. 117, 124; Act of July 8, 1870, ch. CCXXX, § 55, 16 Stat. 206.

12. Act of June 22, 1874, tit. XIII, ch. 12, § 711, 18 Stat. (Part 1) 134. It has been said that there was a period during which some attorneys were uncertain whether the general federal question jurisdiction statute of 1875 returned concurrent jurisdiction to the state courts. See 3 WALKER ON PATENTS § 412, at 1601-02 (A. Deller ed. 1937). Doubts were apparently laid to rest by the rather obscure decision of *In re Hohorst*, 150 U.S. 653, 662 (1893).

13. See Chisum, *supra* note 1, at 636; Note, *The Jurisdiction of State Courts Over Cases Involving Patents*, 31 COLUM. L. REV. 461 n.1 (1931). In *Campbell v. Haverhill*, 155 U.S. 610, 620 (1895), the Court assumed that exclusive federal jurisdiction was created, at least for actions at law, by the Act of 1800 and was extended to equitable remedies by the Act of 1819. (The possibility that equitable relief might be given on the basis of diversity jurisdiction was left open in *Livingston v. Van Ingen*, 15 F. Cas. 697 (No. 8,420) (D.N.Y. 1811). Whether this implies that state courts could have granted like remedies remains a matter for conjecture.)

14. In *Darst v. Brockway*, 11 Ohio Rep. 462, 466 (1842), the court granted relief by cancelling notes given for patents found to be void, noting that the legal principles involved in the patent inquiry "are questions not very common to the courts of this state" and that their proper application was less familiar than many other principles of more frequent use. No similar expressions of concern for lack of state court expertise have been found. Commentators of this period generally assumed that federal jurisdiction was exclusive without offering any explanation of why it should be so. *E.g.*, G. CURTIS, TREATISE ON THE LAW OF PATENTS § 406 (1849); 3 J. KENT, COMMENTARIES ON AMERICAN LAW 368 (11th ed. 1867); W. PHILLIPS, LAW OF PATENTS 378-81 (1837).

15. See *Parsons v. Barnard*, 7 Johns. 144 (N.Y. Sup. Ct. 1810). A rather confused statement may be found in *Burrall v. Jewett*, 2 Paige's Chan. Rep. 134 (N.Y. 1830).

16. See text accompanying notes 30-35 *infra*.

ance was attached to this theory. Other reasons commonly offered were that it was inappropriate for state courts to enforce a federal statute providing for treble damages,¹⁷ that exclusivity should be implied from the fact that the statute which created the right specifically designated the circuit courts for its enforcement,¹⁸ and that somehow there was a need for continuing legislative supervision over patents which counseled against state jurisdiction.¹⁹ After enactment of the 1819 statute, emphasis was also placed on the fact that it provided for federal "cognizance" of "all actions" arising under the patent laws.²⁰

The evidence offered by the above history that there was no strong concern for the consequences of allowing state courts to interpret the scope of federally granted patents and to pass on their validity is largely negative. More positive evidence is afforded by the companion line of cases, next to be examined, delineating a large area of "exclusive" state court jurisdiction over suits involving patent rights.

2. *Exclusive State Jurisdiction*

Absent federal diversity jurisdiction, state courts have "exclusive" original jurisdiction over a wide variety of suits involving contracts affecting patent rights or involving tort claims arising out of interference with business relations in which patent rights are implicated. Supreme Court review of such cases is available only if they turn on a question of federal patent law such as the scope or validity of a patent. To be sure, many of these suits can be brought within the exclusive original federal jurisdiction by adroit pleading of a claim for infringement.²¹ The main conceptual lines dividing jurisdiction, however, are those neatly summarized in the most recent restatement by the Supreme Court:

[W]here a patentee complainant makes his suit one for recovery of royalties under a contract of license or assignment, or for damages for a breach of its covenants, or for a specific performance thereof, or asks the aid of the Court in declaring a forfeiture of the license or in restoring an unclouded title to

17. *E.g.*, *Dudley v. Mayhew*, 3 N.Y. 9 (1849); *Parsons v. Barnard*, 7 Johns. 144 (N.Y. Sup. Ct. 1810); *Rice v. Garnhart*, 34 Wis. 453, 464 (1874).

18. *E.g.*, *Dudley v. Mayhew*, 3 N.Y. 9 (1849); *Parsons v. Barnard*, 7 Johns. 144 (N.Y. Sup. Ct. 1810).

19. *Dudley v. Mayhew*, 3 N.Y. 9 (1849).

20. *Nash v. Lull*, 102 Mass. 60 (1869); *Dudley v. Mayhew*, 3 N.Y. 9 (1849).

21. See Part I(B) *infra*.

the patent, he does not give the federal district court jurisdiction of the cause as one arising under the patent laws.²²

Several early decisions in the lower federal courts dismissing suits on patent contracts for want of subject matter jurisdiction pointed the way to this division,²³ but it was not until 1850 that the Supreme Court spoke its first words on the matter. In *Wilson v. Sandford*²⁴ the patent owner brought suit against a licensee, claiming forfeiture for failure to make required payments and praying a decree setting aside the license and relief against continued practice of the invention as infringement. The Court dismissed an attempted appeal from the lower court on the ground that the suit did not involve the \$2,000 required to give it appellate jurisdiction if the suit were not one arising under federal patent statutes. The dispute was said not to arise out of any statute, but out of the license contract, "and there is no act of Congress providing for or regulating contracts of this kind. The rights of the parties depend altogether upon common law and equity principles."²⁵

Subsequent leading cases involving denial of original federal jurisdiction or approval of state jurisdiction are noted in the margin.²⁶ There is seldom any reflection of concern for

22. *Luckett v. Delpark, Inc.*, 270 U.S. 496, 510-11 (1926). The Court notes that it is not disposed to depart from the established rule, "whatever might be our conclusion if it were a new question." *Id.* at 511.

23. Probably the leading early case is *Burr v. Gregory*, 4 F. Cas. 813 (No. 2,191) (S.D.N.Y. 1828), where the court ruled that it lacked subject matter jurisdiction of a suit for specific performance of a contract to assign an interest in a patent. Two particularly interesting post-1850 cases are *Goodyear v. Union India Rubber Co.*, 10 F. Cas. 726 (No. 5,586) (S.D.N.Y. 1857) (no federal jurisdiction of suit to recover unpaid royalties on patent license), and *Merserole v. Union Paper Collar Co.*, 17 F. Cas. 153 (No. 9,488) (S.D.N.Y. 1869).

24. 51 U.S. (10 How.) 99 (1850).

25. *Id.* at 101-02.

26. Several cases ruled that suits for royalties due on a patent assignment were not in the federal jurisdiction. *E.g.*, *Odell v. F. C. Farnsworth Co.*, 250 U.S. 501 (1919); *Briggs v. United Shoe Mach. Co.*, 239 U.S. 48 (1915); *Albright v. Teas*, 106 U.S. 613 (1882). Other cases denying federal jurisdiction include, *e.g.*, *Muskegon Piston Ring Co. v. Olsen*, 307 F.2d 85 (6th Cir. 1962), *cert. denied*, 371 U.S. 952 (1963) (claims of ownership of the invention underlying conflicting patent and pending patent application); *Cincinnati Shoe Mfg. Co. v. Vigorith*, 212 F.2d 583 (6th Cir. 1954) (suit to compel assignment); *Leaver v. Parker*, 121 F.2d 738 (9th Cir. 1941), *cert. denied*, 314 U.S. 700 (1942) (suit involving construction of license agreement).

At one time there was some indication that the Supreme Court would attempt to enforce the jurisdictional lines it was drawing by refusing to allow a party to a patent contract to ignore the contract and sue for infringement. See *Hartell v. Tilghman*, 99 U.S. 547 (1878).

preserving the power of state courts.²⁷ Instead, the basic theme is simply that reflected in *Wilson v. Sandford*: federal statutes do not provide for contracts affecting patents apart from a few details for recording assignments,²⁸ and such matters are accordingly left to state courts and state law. By the same token, state court decisions in such cases are not subject to Supreme Court review if they do not involve questions of patent law.²⁹

The most dramatic consequence of these jurisdictional lines is that state courts are regularly called upon to determine the scope and validity of federal patents. The Supreme Court has clearly blessed such state power,³⁰ and indeed has occasionally remanded cases appealed from state courts for an initial determination by the state courts of questions of patent validity in order to provide the basis for its own further review.³¹ The most frequent occasion for state court construction of the scope of patents is provided by the fact that, barring contrary agreement, license royalty provisions are construed to apply to any conduct which would otherwise be an infringement and to

As discussed at length in Part I(B), *infra*, however, optional resort to federal jurisdiction by framing a claim for infringement has been made rather freely available.

Basic statements approving the exercise of state court jurisdiction include the leading decision in *American Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257 (1916), where the Court upheld removal to federal court on the ground that state courts originally had jurisdiction of an action for interference with the plaintiff's business by threatening its customers with suits for infringement of the defendant's patent. See also *New Marshall Engine Co. v. Marshall Engine Co.*, 223 U.S. 473 (1912) (approval of state court jurisdiction of a suit to compel assignment of a patent).

Among the more interesting state court statements are: *Coleman v. Whisnant*, 225 N.C. 494, 35 S.E.2d 647 (1945); *Middlebrook v. Broadbent*, 47 N.Y. 443 (1872); *Van Prods. Co. v. General Welding & Fabricating Co.*, 419 Pa. 248, 213 A.2d 769 (1965); *Slemmer's Appeal*, 58 Pa. St. 155 (1868).

27. But see the dissenting opinion of Chief Justice White in *Henry v. A. B. Dick Co.*, 224 U.S. 1, 49 (1912).

28. See text accompanying note 177 *infra*.

29. See *Wade v. Lawder*, 165 U.S. 624 (1897) (suit to rescind contract to assign interest in pending patent application); *Marsh v. Nichols, Shepard & Co.*, 140 U.S. 344, 354, 359 (1891) (suit to enforce contract to release all claims arising at any time out of use of patented invention); *Felix v. Scharnweber*, 125 U.S. 54 (1888) (suit to recover royalties on agreement between co-owners of patent); *Dale Tile Mfg. Co. v. Hyatt*, 125 U.S. 46 (1888) (suit on license to collect royalties).

30. The leading statement is found in *Pratt v. Paris Gas Light & Coke Co.*, 168 U.S. 255, 259 (1897). Cf. *Pan American Petrol. Corp. v. Superior Court*, 366 U.S. 656 (1961).

31. *Lear, Inc. v. Adkins*, 395 U.S. 653, 675-76 (1969); *MacGregor v. Westinghouse Elec. & Mfg. Co.*, 329 U.S. 402, 406 n.4, 407 (1947).

nothing else.³² Historically, determinations as to validity have occurred most frequently in cases involving attempts to avoid liability on promises to pay for a patent assignment, although such determinations have occurred in other contexts as well.³³

32. *E.g.*, *Adkins v. Lear, Inc.*, 67 Cal. 2d 882, 906-16, 435 P.2d 321, 336-41, 64 Cal. Rptr. 545, 560-65 (1967), *rev'd on other grounds*, 395 U.S. 653 (1969); *Perbal v. Dazor Mfg. Corp.*, 436 S.W.2d 677 (Mo. Sup. Ct. 1968); *American Photocopy Equip. Co. v. Ampto, Inc.*, 82 N.J. Super. 531, 198 A.2d 469, 475 (App. Div.), *cert. denied*, 379 U.S. 842 (1964); *Shaw v. E. I. du Pont de Nemours & Co.*, 126 Vt. 206, 226 A.2d 903 (1966) (rehearing heard in 1967). See R. ELLIS, *PATENT LICENSES* § 115 (A. Deller ed. 1958). It is occasionally suggested that a patent should be construed more liberally in suits between licensor and licensee. *E.g.*, *Morpul, Inc. v. Mayo Knitting Mill, Inc.*, 265 N.C. 257, 266, 143 S.E.2d 707, 714 (1965). Compare R. NORDHAUS, *PATENT LICENSE AGREEMENTS: LAW & FORMS* 121 (1967) (licensee may agree not to contest the scope of patent claims). This proposition is probably superseded by the general abolition of licensee estoppel. See note 34 *infra*.

33. Early cases involving attempts to avoid paying for patent rights include *Nye v. Raymond*, 16 Ill. 153 (1854); *McClure v. Jeffrey*, 8 Ind. 79 (1856); *Nash v. Lull*, 102 Mass. 60 (1869); *Dickinson v. Hall*, 31 Mass. (14 Pick.) 217 (1833); *Bliss v. Negus*, 8 Mass. 46 (1811); *Jolliffe v. Collins*, 21 Mo. 338, 343 (1855); *Dunbar v. Marden*, 13 N.H. 311 (1842); *Earl v. Page*, 6 N.H. 477 (1834); *Middlebrook v. Broadbent*, 47 N.Y. 443 (1872) (seeking to cancel note given for patent right and to recover on "bond" conditioned on validity of patent); *Darst v. Brockway*, 11 Ohio Rep. 462 (1842); *Rice v. Garnhart*, 34 Wis. 453, 464, 465 (1874) (defense to suit for royalties due for assignment). An occasional maverick opinion can be found ruling that exclusive federal infringement jurisdiction impliedly excluded state court consideration of patent validity. See *Elmer v. Pennel*, 40 Me. 430, 434-35 (1855); Note, *The Jurisdiction of State Courts in Cases Arising Under the Patent-Right Laws*, 4 CENTRAL L.J. 555 (1877). [The Maine Court reneged in *Carleton v. Bird*, 94 Me. 182, 189, 47 A. 154, 156 (1900).]

Rulings on patent validity also occurred in various contexts of license litigation. *E.g.*, *Rich v. Hotchkiss*, 16 Conn. 409 (1844) (suit to restrain operations beyond the scope of a limited license); *Eno v. Prime Mfg. Co.*, 314 Mass. 686, 50 N.E.2d 401 (1943) (no damages result from operations after termination of license since patent is invalid); *Sherman v. Champlain Transp. Co.*, 31 Vt. 162, 174 (1858) (*semble*).

Notwithstanding the clear power of state courts to rule on patent validity, various devices have been employed to avoid the need for such rulings. The most direct limitation has been found in decisions that state courts may not entertain affirmative requests for declaratory determinations of validity or invalidity. *E.g.*, *Leesona Corp. v. Concordia Mfg. Co.*, 312 F. Supp. 392 (D.R.I. 1970); *Pleatmaster, Inc. v. Consolidated Trimming Corp.*, 156 N.Y.S.2d 662 (Sup. Ct. 1956). State courts confronted with difficult questions of patent validity may voluntarily stay proceedings to facilitate resort to federal courts for declaratory judgment rulings. *E.g.*, *Adkins v. United States Dist. Court*, 431 F.2d 859 (9th Cir. 1970); *Talbot v. Quaker State Oil Ref. Co.*, 104 F.2d 967, 968 (3d Cir. 1939). Likewise, state courts may defer determination of patent law questions affecting contract rights to a patent to determination by the Patent Office. See *Republic Engr'g & Mfg. Co. v. Moskovitz*, 376 S.W.2d 649 (Mo. App.), *cert. denied*, 379 U.S. 837 (1964). Cf. *Maxim*

Following the complete abrogation of the doctrine that a licensee sued for royalties is estopped to challenge the validity of the licensed patent,³⁴ however, it may be anticipated that state courts will be called upon to answer questions of patent validity in a considerable volume of license litigation.³⁵

These jurisdictional lines indicate clearly that the federal courts have not been anxious to ensure that all cases involving the validity or scope of patents be brought within the reach of the uniformity-creating expertise of original federal jurisdiction. The clear lack of concern with state adjudication of such matters has even led state courts to grant injunctive relief against future patent infringement where that has seemed an appropriate form of contract relief,³⁶ and has led federal courts to accord collateral estoppel effect to state court determinations of patent law issues when the issues have been decided in state litigation and the same issues have recurred in federal infringement litigation.³⁷

v. E.L. Tebbets Spool Co., 132 Me. 398, 171 A. 698 (1934); *Grob v. Continental Mach. Specialties, Inc.*, 204 Minn. 459, 283 N.W. 774 (1939).

34. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). The decision in *Lear* seems clearly to preclude private license agreements that the licensee will not challenge the validity of the licensed patent. *E.g.*, *Beckman Instruments, Inc. v. Technical Development Corp.*, 433 F.2d 55, 59 (7th Cir. 1970), *cert. denied*, 401 U.S. 976 (1971).

35. Such questions had already arisen in the various contexts in which state courts allowed rather uncertain avenues around the general doctrines of licensee estoppel. *E.g.*, *Crew v. Flanagan*, 242 Minn. 549, 65 N.W.2d 878 (1954) (estoppel terminated by licensee's repudiation of the license).

36. *E.g.*, *New Marshall Engine Co. v. Marshall Engine Co.*, 223 U.S. 473 (1912); *H.J. Heinz Co. v. Superior Court*, 42 Cal. 2d 164, 266 P.2d 5 (1954); *Battelle Development Corp. v. Angevine-Funke, Inc.*, 165 U.S.P.Q. 776 (Ohio Com. Pl. 1970). See *Hold Stitch Fabric Mach. Co. v. May Hosiery Mills*, 184 Tenn. 19, 28, 195 S.W.2d 18, 22, *cert. denied*, 329 U.S. 759 (1946).

37. The case putting this issue squarely is *Vanderveer v. Erie Malleable Iron Co.*, 238 F.2d 510 (3d Cir. 1956), *cert. denied*, 353 U.S. 937 (1957), ruling that a prior state court determination that a licensee did not owe royalties on a particular product was binding in later federal litigation charging infringement in continued production of the same product. See also *Cavicchi v. Mohawk Mfg. Co.*, 34 F. Supp. 852 (S.D.N.Y. 1940).

The result in *Vanderveer* seems correct so long as federal courts are entirely willing to cede jurisdiction of patent contract litigation to state courts. The underlying jurisdictional rulings indicate that no vital importance is attached to the possible need for uniform, expert federal rulings. For this reason, it seems essential to distinguish the patent situation from other situations involving exclusive federal jurisdiction, a point overlooked in most discussions of the estoppel effects of state court rulings in later litigation brought under some head of exclusive federal jurisdiction. *E.g.*, Note, *State Court's Finding on Patent*

Finally, there are a few situations in which the owner of a patent interest which could probably be enforced as an infringement claim within the exclusive federal jurisdiction has been allowed to proceed on a state law tort theory. Thus in one very recent case a state law theory of interference with advantageous relations was held to be available to a patentee who preferred for procedural reasons to waive a claim for inducing infringement.³⁸ Such theories will be discussed at greater length below;³⁹ for the moment, they offer a final illustration of the lack of federal judicial concern for preserving any effective exclusive federal jurisdiction over questions of patent law.

This sketch of the basic jurisdictional lines seems sufficient to establish the framework for stating, and then analyzing, the areas in which state law controls the exploitation of patent rights. Readers who are not interested in the minutiae of juris-

Infringement Held Binding In Later Federal Action, 57 COLUM. L. REV. 585 (1957); Note, *Exclusive Jurisdiction of the Federal Courts in Private Civil Actions*, 70 HARV. L. REV. 509, 514-15 (1957); Note, *Res Judicata: Exclusive Federal Jurisdiction and the Effect of Prior State-Court Determinations*, 53 VA. L. REV. 1360 (1967); Comment, *Exclusive Federal Jurisdiction: The Effect of State Court Findings*, 8 STAN. L. REV. 439 (1956).

Quite different considerations apply to state court determinations of matters which, unlike rulings as to the scope of a patent, are governed by state law. As noted at length in Part II, *infra*, such matters as the ownership of inventions and the existence of license agreements are governed by state law; when a state court has ruled in such an area, the conclusion that estoppel effect should be extended in later federal patent litigation seems to follow easily. *E.g.*, *Becher v. Contoure Labs., Inc.*, 279 U.S. 388 (1929); *Nelson v. Swing-A-Way Mfg. Co.*, 266 F.2d 184 (8th Cir. 1959); *Talbot v. Quaker State Oil Ref. Co.*, 104 F.2d 967 (3d Cir. 1939); *Zachs v. Aronson*, 49 F. Supp. 696 (D. Conn. 1943). Cf. *Leo Feist, Inc. v. Robbins Music Corp.*, 146 F.2d 400, 401 (2d Cir. 1944) (dictum in copyright case).

No cases have been found dealing with the estoppel effect of state court findings as to patent validity. The recommendation by the President's Commission on the Patent System that "in rem" effect be given to rulings of invalidity was limited to rulings in a federal court. See PRESIDENT'S COMMISSION ON THE PATENT SYSTEM, "To Promote the Progress of . . . Useful Arts," Recommendation XXIII, S. Doc. No. 5, 90th Cong., 1st Sess. (1967). In its recent ruling that the doctrine of mutuality of estoppel should no longer be generally applied to preclude a nonparty from taking advantage of a prior ruling of patent invalidity, the Supreme Court gave no indication whether a different rule might be applied to state court determinations. See *Blonder-Tongue Labs, Inc. v. University of Ill. Foundation*, 402 U.S. 313 (1971).

38. *Koratron Co. v. Deering Milliken, Inc.*, 418 F.2d 1314 (9th Cir. 1969), cert. denied, 398 U.S. 909 (1970). See text accompanying note 239 *infra*.

39. See text accompanying notes 239-40 *infra*.

dictional rulings may easily proceed directly to the discussion in Part II. For the sake of balance, however, the remainder of this first section will be devoted to a brief sketch of the ways in which the basic lines have been blurred. If the picture painted above has seemed one of nonconcern for the consequences of relegating questions of patent law to state court determination, the picture painted by the decisions allowing state jurisdiction to be avoided by careful pleading of an infringement claim seems one of almost gay insouciance for the jurisdictional lines which originally helped determine the respective spheres of state and federal law.

The main present significance of the basic jurisdictional lines and of their subsequent meanders is not that there is an urgent need to return to sound first principles of jurisdictional allocation. There is ample room to argue that there is no significant cost entailed in occasional state adjudication of issues of federal patent law. Additionally, any cost is far outweighed by the resulting benefits of freeing the federal courts from an overextension of infringement jurisdiction to a great many contract cases which in the end would not involve any issues of federal law whatever. The point is simply that there has indeed been an implicit determination by the federal courts that federal law should not extend to all aspects of transactions affecting patents. Since state law governs many aspects of such transactions, subject only to such infrequent Supreme Court review as may be practicably available, the desirability of exclusive state determination of such matters prevails over any possible losses in permitting state courts to determine federal patent matters as well.

B. BLURRING THE JURISDICTIONAL LINES⁴⁰

The fact that state law controls most aspects of the contractual relationships created by patent licenses and assignments has not precluded resort to federal nondiversity jurisdiction for suits growing out of such relationships. Undoubtedly one effect of the various doctrines allowing such evasion of the basic jurisdictional lines is desirable, at least in the eyes of those who believe in the superiority of federal adjudication of questions of patent validity and coverage—very often, a party

40. A recent discussion somewhat paralleling the themes developed below is Chisum, *The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*, 46 WASH. L. REV. 633, 644-50 (1971).

who wishes to take advantage of the federal courts may do so.⁴¹ To the extent that state jurisdiction may be thought to undermine the policies implicit in exclusive federal infringement jurisdiction, these doctrines help restore the shaking foundations.

Blurring the jurisdictional lines sketched above has several less fortunate results as well. At a minimum, the awkwardness and inefficiency entailed by the inevitable mistaken choices resulting from obscure jurisdictional doctrine are encountered.⁴² The fact that the mistake leading to dismissal for lack of jurisdiction may be simply one of maladroitness exacerbates this problem. More importantly, if it is assumed that there is any sound reason for continuing to apply state law to the underlying contractual relationships, exercise of the choice to resort to federal infringement jurisdiction means that federal courts must frequently answer questions of state law without even the excuse of diversity. Finally, and perhaps most fundamentally, the current lines of choice do not correspond to any

41. The election is indeed optional. The fact that suit may be brought for infringement does not preclude resort to state courts on a breach of contract theory even though the resulting litigation may require state court determination of the validity or scope of the patents involved. *E.g.*, *Hold Stitch Fabric Mach. Co. v. May Hosiery Mills*, 184 Tenn. 19, 195 S.W.2d 18, *cert. denied*, 329 U.S. 759 (1946); *Shaw v. E. I. du Pont de Nemours & Co.*, 126 Vt. 206, 226 A.2d 903 (1966). Cf. *Nelson v. Mills Music, Inc.*, 278 App. Div. 311, 104 N.Y.S.2d 605 (1951).

One commentator has asserted that if a licensee repudiates the license on the ground of patent invalidity, the licensor must resort to federal infringement jurisdiction. R. ELLIS, *PATENT LICENSES* § 335 (A. Deller ed. 1958). This conclusion seems to entail consequences which cannot be countenanced. The license, for instance, may involve obligations of the licensee to practice the licensed invention or to allow the licensor to share the benefits of improvements developed by the licensee [a nonexclusive license, for instance, should often be valid]. Providing an adequate substitute for such duties by an infringement decree would be, to say the least, difficult.

Pan American Petrol. Corp. v. Superior Court, 366 U.S. 656 (1961), provides a closely related example. Exclusive federal jurisdiction of claims arising under the Natural Gas Act was there held not to preclude alternate resort to state courts on theories of breach of express contract or restitution. Heavy reliance was placed on analogous cases involving patent contracts for the conclusion that "if the plaintiff decides not to invoke a federal right, his claim belongs in a state court." 366 U.S. at 663.

42. Compare D. Currie, *The Federal Courts and the American Law Institute: Part I*, 36 U. CHI. L. REV. 1 (1968): "Jurisdiction should be as self-regulated as breathing . . ." Of course this is not to say that the conflicting considerations often involved in drawing the lines of federal jurisdiction may always be balanced best by rules so clear as to be self-applying. The price of some uncertainty may at times be well repaid by better results.

intelligible reason for allocating litigation between state and federal courts. For it is clear that present rules do not yet allow resort to federal courts by any party affected by a ruling on the validity or scope of a patent. If the policies underlying exclusive federal infringement jurisdiction are as important as they ought to be to justify exclusivity, rational rules would at least allow such a choice. If, on the other hand, it is not thought particularly important to provide such supposedly expert federal rulings, there is no rhyme nor reason to the basis on which they are currently made available.⁴³

1. *Licensors Claims Against Licensee*

The clearest illustration of the optional availability of federal infringement jurisdiction, and the easiest access to it, occurs in suits brought by a licensor on a claim that a licensee is practicing the patent beyond the limits permitted by the license. The Supreme Court has chosen such a case for one of its frequent pronouncements that "the party who brings a suit is master to decide what law he will rely upon,"⁴⁴ and has allowed extension of infringement jurisdiction even to claims that a third party is inducing infringement by inducing the licensee to transcend the limits imposed by the license terms.⁴⁵ Suit for infringement in such circumstances has the added advantage that the licensor does not have to terminate the license arrangement as a condition of access to the federal courts.

Matters become murkier when the licensor's claim is that the licensee has failed to perform some affirmative duty undertaken in return for the license. Again there is a general principle that "the plaintiff is absolute master of what jurisdiction he will appeal to,"⁴⁶ and he may within some uncertain limits

43. See Parts I(C) & III(A) *infra*.

44. *The Fair v. Kohler Die & Specialty Co.*, 228 U.S. 22, 25 (1913). See also *Littlefield v. Perry*, 88 U.S. (21 Wall.) 205 (1874). *Goodyear v. Union India Rubber Co.*, 10 F. Cas. 726 (No. 5,586) (S.D.N.Y. 1857), is an early opinion clearly drawing the line between use of the patented invention beyond the scope of the license giving rise to infringement jurisdiction and mere failure to perform a license promise not giving rise to infringement jurisdiction.

45. *Geneva Furniture Mfg. Co. v. S. Karpen & Bros.*, 238 U.S. 254 (1915); *Henry v. A. B. Dick Co.*, 224 U.S. 1 (1912). Alternative resort to state courts may be possible on a tort claim of interference with the license contracts. See *Koratron Co. v. Deering Milliken, Inc.*, 418 F.2d 1314 (9th Cir. 1969), *cert. denied*, 398 U.S. 909 (1970).

46. *Healy v. Sea Gull Specialty Co.*, 237 U.S. 479, 480 (1915).

choose to treat the licensee's violation as ground for terminating the license and treating any further practice of the invention by the licensee as infringement.⁴⁷ Unhappily, it was at least an anticipation of some as yet unestablished judicial clarification for the Supreme Court to have pronounced that the licensor in such situations is "absolute master" of the jurisdictional choice.

One limitation that appears to linger on is that of pleading form. In the very first Supreme Court decision dealing with the scope of federal patent jurisdiction in this area, the license in suit provided that upon failure to make stipulated payments all rights granted would revert to the licensor. The suit brought by the licensor set out the license terms, alleged nonpayment, and prayed for a decree revesting the licensor with all his original rights and for an injunction against further use of the licensed machine as infringement. The Court ruled that the suit was not one arising under the patent laws since it primarily sought to set aside the contract and sought relief against infringement only as a consequence of the preceding contract relief.⁴⁸ It has since been decided that if the suit is properly framed for relief against infringement, federal jurisdiction is not defeated because the complaint also anticipates and seeks to avoid a defense based on a license.⁴⁹ The pleading line be-

47. The clearest recent illustration is *Morpul, Inc. v. Crescent Hosiery Mills*, 265 F. Supp. 279, 288, 302-03 (E.D. Tenn. 1967). An interesting variation is illustrated by *Radio Corp. of America v. Cable Tube Corp.*, 66 F.2d 778, 782 (2d Cir. 1933), *cert. denied*, 290 U.S. 703 (1934). This principle finds particularly easy application in situations where the licensor claims that the entire license agreement is vitiated by its fraudulent procurement by the licensee. *E.g.*, *Purer & Co. v. Aktiebolaget Addo*, 410 F.2d 871, 879 (9th Cir.), *cert. denied*, 396 U.S. 834 (1969); *Globe Steel Abrasive Co. v. National Metal Abrasive Co.*, 101 F.2d 489 (6th Cir. 1939).

Other illustrations may be found in *Bucky v. Sebo*, 115 F. Supp. 555, 564 (S.D.N.Y.), *rev'd on other grounds*, 208 F.2d 304 (2d Cir. 1953); *Brooks v. Stolley*, 4 F. Cas. 302 (No. 1,962) (D. Ohio 1845). A delightful series showing how a carefully limited statement may be expanded by successive dicta into a supposed absolute freedom of choice is provided by *Scherr v. Difco Labs.*, 401 F.2d 443, 446 n.4 (6th Cir. 1968), which relies on *Universal Rim Co. v. General Motors Corp.*, 31 F.2d 969, 970 (6th Cir. 1929), which, in turn, relies on *Oscar Bennett Foundry Co. v. Crowe*, 219 F. 450 (3d Cir. 1915).

48. *Wilson v. Sandford*, 51 U.S. (10 How.) 99 (1850) (the question arose under provisions for appellate rather than original jurisdiction over actions arising under the patent laws).

49. *Healy v. Sea Gull Specialty Co.*, 237 U.S. 479, 480 (1915); *Rubens v. Bowers*, 136 F.2d 887, 890 (9th Cir. 1943); *Goss v. Henry McCleary Timber Co.*, 82 F.2d 476, 478 (9th Cir. 1936).

tween state and federal jurisdiction accordingly remains obscure.⁵⁰

A more nearly substantive limitation on free access to infringement jurisdiction derives from the underlying assumption that the licensor is in fact free to treat the license as terminated. If the license has been drawn to make the duties of the licensee merely a matter of promise, rather than an express condition to the continued duration of the license, the only conclusion that can be drawn with any confidence is that controlling state contract law sometimes will and sometimes will not allow the licensor to treat the licensee's breach of promise as grounds for forfeiting the entire license.⁵¹ The currently indicated response in such situations is that although there is infringement jurisdiction, a conclusion that the license has not been effectively terminated precludes relief.⁵² As discussed below, however, free use of pendent jurisdiction might serve to allow disposition of all issues by the federal court.⁵³ Even if the duties of the licensee are expressly made conditions to the continued existence of the license, there are dark hints threading through the Supreme Court's opinions that such conditions may not always be accepted as a basis for terminating the license, and that if they are not accepted infringement jurisdiction must fail just as in cases where simple breach of promise is found an inadequate basis for terminating the license.⁵⁴

50. See *Smith Separator Corp. v. Dillon*, 98 F.2d 521 (10th Cir. 1938) (postdating all of the relevant Supreme Court decisions). Added obscurity is provided by the assignment cases discussed in Part I(B) (3) *infra*.

51. See generally R. ELLIS, *PATENT LICENSES* ch. 24 at 327-52 (A. Deller ed. 1958). The earliest clear pronouncement that a mere failure to pay license royalties does not allow access to infringement jurisdiction is *Goodyear v. Union India Rubber Co.*, 10 F. Cas. 726 (No. 5,586) (S.D.N.Y. 1857).

52. *Luckett v. Delpark, Inc.*, 270 U.S. 496, 511 (1926). Cf. *Geneva Furniture Mfg. Co. v. S. Karpen & Bros.*, 238 U.S. 254 (1915); *United Mfg. & Service Co. v. Holwin Corp.*, 187 F.2d 902, 905 (7th Cir. 1951).

An early case in this line is *Hartell v. Tilghman*, 99 U.S. 547 (1878), where the Court refused to allow the patentee to sue for infringement after repudiating the license for nonperformance by the licensee. There is ample room to read the opinion as resting on a still viable ground that in some circumstances, at least, rescission by unilateral action of one party to the license is not available. See 99 U.S. at 556. Nonetheless, it is currently fashionable to suggest that there really was infringement jurisdiction, regardless of the right of the plaintiff to recover, without considering the possibility that the allegations of the complaint in that case effectively established that there was no right to rescind. *E.g.*, *Luckett v. Delpark, Inc.*, 270 U.S. 496, 506, 510 (1926).

53. See Part I(B) (4) *infra*.

54. *Luckett v. Delpark, Inc.*, 270 U.S. 496, 511 (1926). See Chade-

Finally, the major practical limitation on electing to treat the license as terminated and to sue for infringement is that the licensor may very well prefer to keep the license in force. Likewise it seems certain that if suit is not brought until the license has expired and the licensee has ceased to practice the invention, many forms of breach such as failure to pay stipulated royalties would be subject to remedy only by way of action on the contract.

In short, access to infringement remedies by a licensor is limited by practical considerations, and may very well be limited further by theoretical restraints on freedom to treat the license as terminated. These limitations do not appear to bear any rational relation to the considerations which may be thought to make it desirable to allow recourse to a federal determination of the validity or scope of the patent involved in the licensing arrangement.⁵⁵

2. Licensee Claims Against Licensor

One of the established situations of choice between state and federal infringement jurisdiction is found in the case of an exclusive licensee who believes that the licensor is practicing the invention in violation of the promised exclusivity. The Supreme Court established the rule long ago that since the licensor could not be expected to sue himself for infringement, the exclusive licensee could do so.⁵⁶ This rule clearly applies

loid Chem. Co. v. Johnson, 203 F. 993 (7th Cir. 1913); *Woodworth v. Weed*, 30 F. Cas. 595 (No. 18,022) (N.D.N.Y. 1846) (enjoining infringement unless the licensee pays royalties notwithstanding license clause voiding the license for nonpayment).

55. There may be offered one final illustration of the strange lines currently accepted. Some attention will be focused in an ensuing section on the currently accepted premise that there is a valid role for state law in the enforcement of promises not to infringe a patent. See Part II(E) *infra*. Since such contracts are governed by state law, it has followed that suits for breach by infringement are not within federal infringement jurisdiction. See *United Lens Corp. v. Doray Lamp Co.*, 93 F.2d 969 (7th Cir. 1937); *Coty, Inc. v. Bourjois, Inc.*, 109 F. Supp. 431 (S.D.N.Y. 1952). It is difficult indeed to understand why suit may often be brought for infringement when a licensee has practiced the invention beyond the limits imposed by the license, but may not be brought when the theory is that the defendant has broken a promise not to practice the invention at all. See text accompanying notes 44-45 *supra*. Presumably the answer would be that infringement jurisdiction may indeed be invoked if the patent owner chooses to rely on his patent right rather than his contract right. This answer, however, simply serves to underscore the question whether there is any valid role whatever for contracts not to infringe.

56. *Littlefield v. Perry*, 88 U.S. (21 Wall.) 205, 222-23 (1874).

even though it becomes apparent before the close of the pleadings that the only dispute between the parties concerns rights created by the license contract.⁵⁷

Access to federal jurisdiction on an infringement theory appears to be unavailable under current theories if the licensee does not have an exclusive license.⁵⁸ A nonexclusive licensee, for instance, might believe that the licensor had failed to perform a promise to pursue infringers, or that the licensor has an obligation to hold the licensee harmless against claims of infringement of a patent owned by a third party based on the licensee's activities in practicing the licensed patent. Although actions based on such claims might center almost exclusively on questions of federal patent law, it would at least take some fancy pleading footwork to persuade a federal court to assume non-diversity jurisdiction.⁵⁹

An alternate route successfully traveled by some licensees to enter federal courts suggests that the cause may not be hopeless. The clearest situation in which several courts have been persuaded to accept federal jurisdiction has involved repudiation of the license followed by suit brought by the licensee for a declaration that its continuing activities do not infringe the patent and that the patent is invalid.⁶⁰

57. *Excelsior Wooden Pipe Co. v. Pacific Bridge Co.*, 185 U.S. 282 (1902). Current illustrations include: *James C. Wilborn & Sons v. Brandex Tilt Sash, Inc.*, 380 F.2d 44 (7th Cir. 1967); *McKnight v. Akins*, 192 F.2d 674 (6th Cir. 1951); *Superior Testers, Inc. v. Damco Testers, Inc.*, 309 F. Supp. 661 (E.D. La. 1970).

58. Under ordinary doctrine, an exclusive licensee may bring suit for infringement against third parties, joining the licensor against the licensor's will if need be. See *Independent Wireless Tel. Co. v. Radio Corp. of America*, 269 U.S. 459 (1926). The general line between assignments and licenses is discussed briefly in Part II(C) *infra*. It may be appropriate to note here, however, that an exclusive license may be granted after a bare license has been granted to someone else; the exclusive licensee in such cases has the same rights to invoke infringement jurisdiction against third parties as any other exclusive licensee. *E.g.*, *Paul E. Hawkinson Co. v. Carnell*, 112 F.2d 396 (3d Cir. 1940).

59. See Part I(C) *infra*.

60. *Thiokol Chem. Corp. v. Burlington Inds.*, 448 F.2d 1328 (3d Cir. 1971), *cert. denied*, 40 U.S.L.W. 3315 (Nos. 71-570, 71-585) (Jan. 10, 1972), *aff'g* 319 F. Supp. 218 (D. Del. 1970); *Ski Pole Specialists, Inc. v. McDonald*, 159 U.S.P.Q. 709 (9th Cir. 1968), *vacated*, 167 U.S.P.Q. 519 (9th Cir. 1969), *on remand*, 167 U.S.P.Q. 526 (D. Idaho 1970); *Chicago Metallic Mfg. Co. v. Edward Katzinger Co.*, 123 F.2d 518 (7th Cir. 1941) (see 329 U.S. 394 (1947) for later history); *Components, Inc. v. Western Elec. Co.*, 318 F. Supp. 959 (D. Me. 1970); *Lionel Corp. v. De Filippis*, 11 F. Supp. 712 (E.D.N.Y. 1935). Cf. *Universal Time Punch, Inc. v. Consolidated Datametrics Corp.*, 264 F. Supp. 924 (S.D.N.Y. 1967).

Suits for declaratory judgment brought before either licensor or licensee has attempted to repudiate the license, however, have generally been dismissed for lack of subject matter jurisdiction. The basic reason appears to be that if the license is still in effect, the licensor is not in a position to sue for patent infringement and may sue only in state court for breach of license if the licensee fails to pay royalties. The attempt by the licensee to assert claims of patent invalidity or noncoverage, then, represents an attempt to assert a federal defense to a state-created cause of action for contract relief; the decision in *Public Service Commission v. Wycoff Co.*⁶¹ is thought to bar this avenue into federal jurisdiction.⁶² It follows that if the licensor is in a position to sue for infringement, the licensee may maintain the declaratory judgment action. Two courts have indeed so ruled in cases where the licensor has asserted that there is no license⁶³ or has charged the licensee with infringement.⁶⁴ Perhaps it would be more accurate to characterize these decisions as allowing access to federal jurisdiction through a declaratory judgment action where the defendant is asserting a position which, if valid, could be enforced by suit in the federal jurisdiction, since there is no indication that the existence of jurisdiction would ultimately turn on the correctness of the defendant's assertions.

At least two other opinions appear to go further. In one, without discussion, a company licensed to practice several patents was allowed to maintain a declaratory judgment action based on claims of the invalidity of one patent, and its nonapplicability to the plaintiff's products.⁶⁵ Where several patents are involved in the license, there are obviously strong reasons to avoid a requirement that the licensee repudiate the entire agreement in order to be able to challenge a single patent.

61. 344 U.S. 237, 248-49 (1952).

62. *Thiokol Chem. Corp. v. Burlington Inds.*, 448 F.2d 1328 (3d Cir. 1971), *cert. denied*, 40 U.S.L.W. 3315 (Nos. 71-570, 71-585) (Jan. 10, 1972), *aff'g* 313 F. Supp. 253 (D. Del. 1970); *W. R. Grace & Co. v. Union Carbide Corp.*, 319 F. Supp. 307 (S.D.N.Y. 1970). *See* *Product Engr'g & Mfg. Co. v. Barnes*, 424 F.2d 42, 45 (10th Cir. 1970). *Cf.* *Tuthill v. Wilsey*, 182 F.2d 1006 (7th Cir. 1950).

A recent exposition of similar doctrine in another substantive area is *Chandler v. O'Bryan*, 445 F.2d 1045, 1055-56 (10th Cir. 1971). *See generally* C. WRIGHT, *FEDERAL COURTS* 61-62 (2d ed. 1970).

63. *General Tire & Rubber Co. v. Watkins*, 326 F.2d 926 (4th Cir.), *cert. denied*, 377 U.S. 909 (1964).

64. *Grip Nut Co. v. Sharp*, 124 F.2d 814 (7th Cir. 1941).

65. *Beckman Instruments Inc. v. Technical Development Corp.*, 433 F.2d 55 (7th Cir. 1970), *cert. denied*, 401 U.S. 976 (1971).

In a more recent decision, moreover, a licensee has been allowed to maintain a declaratory judgment action as to the validity and coverage of both of the patents involved in the license agreement without repudiating it. The court simply concluded that no useful purpose would be served by requiring termination prior to suit.⁶⁶

At first blush, the assumed desirability of allowing access to a federal adjudication of patent validity and coverage would suggest that allowing suit without regard to repudiation is desirable. The only countervailing consideration is that of fair dealing between the parties: allowing such a suit would enable a company to take a license for protection, fully intending to challenge the patent involved, and then bring suit from a position of having its license and eating it too. Reflecting this concern, the Scott Amendments to the pending patent reform bill would require that a licensee renounce any protection of the license as a condition of the right to contest the validity of the licensed patent.⁶⁷ A more restricted version might be to allow the licensor the option to terminate the license if the licensee challenges the validity of the patent.⁶⁸ Whatever comes of these proposals, there seems little reason to conclude that the added attractiveness of suit in a federal forum will so increase the proclivity of licensees to contest patent validity that federal declaratory relief should be denied.⁶⁹ Once this

66. *Medtronic, Inc. v. American Optical Corp.*, 327 F. Supp. 1327 (D. Minn. 1971). The matched pair of district court decisions in the *Thiokol* case were distinguished on the ground that they involved products being produced at the time the license was given, while new products were involved in the present case. See notes 60 & 62 *supra*. The court added, however, that it believed federal patent policy requires that licensees be allowed easy challenge of the patents in their licenses without the risk of ending the license.

67. S. 643, 92d Cong. 1st Sess. (1971), Amendment No. 24. See 117 CONG. REC. S. 3400-01 (daily ed. Mar. 19, 1971).

68. *E.g.*, 518 B.N.A. Antitrust & Trade Reg. Rep. A-2 (June 15, 1971) (suggestions of former Ass't Atty. General Richard W. McLaren).

69. Since state law might very well allow the licensor to repudiate if the licensee discontinued performing the license obligations, such as payment of royalties, pending the declaratory judgment suit, the licensee will ordinarily be saddled with both the highly expensive chore of patent litigation and also the cost of performing its license obligations pending suit. Although it may be entirely appropriate to assume that even this situation allows the licensee an unfair advantage over the licensor, the real basis of objection seems to lie in a desire to increase the risks of litigation as compared to licensing so that there is less danger that any court will ever pass on the patent's validity. The supposed desirability of fostering judicial review of patents reflected in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), and the preference that the

concern is put aside there is no sound reason why the questionable dictum in the *Wycoff* decision should be honored to preclude resort to federal court.⁷⁰ At least in an area where federal courts supposedly have so much to offer that infringement jurisdiction is made exclusive, concern about transferring license litigation from the state courts is simply misplaced.

Allowing a licensee access to federal court whenever a claim of invalidity or noncoverage of the patent is raised would mean that licensees have broader avenues of access than are currently available to licensors. Discrimination in access to federal tribunals does not offer any reason for rejecting jurisdiction when it is possible and it seems desirable to accept jurisdiction. On the contrary, fullest means should be utilized to make such use of jurisdiction as is available under current statutory and decisional rules while attention is devoted to further statutory or decisional development to eliminate discrimination resulting from denial of jurisdiction in comparable circumstances.⁷¹

Licensee suits for declaratory judgment are apt to involve a delicate question of deference when the federal suit is simply a reaction to a suit brought by the licensor in a state court.

review be in the federal courts, together outweigh the argument that allowing licensee access to declaratory judgment during the life of the license is simply unfair until Congress determines otherwise. Slight added support for this view may be found in the further *Lear* ruling that the license agreement may not validly impose an obligation to pay royalties until the moment when the patent is held invalid. The reason was that payment of the double costs of royalties and litigation might deter licensees from challenging patent validity. 395 U.S. at 673-74. See also *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 334 F. Supp. 1269 (W.D. Tenn. 1971), which requires refund of royalties paid by the licensee during the period prior to any challenge to the patent.

70. It is generally agreed that federal question jurisdiction should be available on the basis of a declaratory judgment action which demonstrates the existence of a genuine federal question. E.g., ALI, *STUDY OF THE DIVISION OF JURISDICTION BETWEEN STATE AND FEDERAL COURTS* § 1311(a) at 170-72, 176 (1968); C. WRIGHT, *FEDERAL COURTS* 61-62 (2d ed. 1970); Currie, *The Federal Courts and the American Law Institute: Part II*, 36 U. CHI. L. REV. 268, 271 (1969). At least one federal court has even accepted jurisdiction of a declaratory judgment action brought to determine a federal question defense interposed in a pending state action. The court ruled that proceedings should be stayed and revived if the state court should refuse to entertain the claimed federal defense. *Shareholders Management Co. v. Gregory*, 449 F.2d 326 (9th Cir. 1971).

Although none of the decisions in the area under discussion cite it, much of the current difficulty springs from statements in the opinion in *Skelly Oil Co. v. Phillips Petrol. Co.*, 339 U.S. 667, 673-74 (1950). See generally Mishkin, *The Federal "Question" in the Federal Courts*, 53 COLUM. L. REV. 157, 177-84 (1953); H. Trautman, *Federal Right Jurisdiction and the Declaratory Remedy*, 7 VAND. L. REV. 445 (1955).

71. See Part I(C) *infra*.

Ideally state courts may voluntarily defer consideration of patent questions to the federal court, allowing an indirect removal of that part of the pending state litigation.⁷² Where there is no indication of such cooperation from the state courts, some federal courts have deferred to the state litigation⁷³ while others have pushed ahead.⁷⁴ Deference to the state courts seems preferable if they are not willing to concur in the judgment that it would be better to determine the patent questions in the federal court. The general jurisdictional lines developed over the years have made it clear that the Supreme Court has not placed a high value on keeping patent questions in federal courts and simultaneous consideration of the same issues in two courts is in all events an egregious waste of scarce judicial resources.⁷⁵

Denial of federal jurisdiction declaratory relief to a licensee who is unwilling to repudiate, without more, would apparently return the jurisdictional question to the definition of the circumstances in which the licensor might invoke infringement jurisdiction against the licensee. Even this approach might allow licensees broader access than licensors to federal jurisdiction, if they were allowed to invoke declaratory remedies whenever the licensor is asserting a position which *might* be

72. See *Adkins v. United States Dist. Court*, 431 F.2d 859 (9th Cir. 1970); *Talbot v. Quaker State Oil Ref. Co.*, 104 F.2d 987 (3d Cir. 1939); Comment, *Jurisdiction—State Courts—Suit for Unfair Competition Where Issue of Validity of Patent Involved is Pending in Federal Court*, 50 HARV. L. REV. 364 (1936).

73. *Product Engr'g & Mfg., Inc. v. Barnes*, 424 F.2d 42 (7th Cir. 1970); *Lear Siegler, Inc. v. Adkins*, 330 F.2d 595 (9th Cir. 1964); *H.J. Heinz Co. v. Owens*, 189 F.2d 505, rehearing denied, 191 F.2d 257 (9th Cir. 1951), cert. denied, 342 U.S. 905 (1952).

74. *Chicago Metallic Mfg. Co. v. Edward Katzinger Co.*, 123 F.2d 518, 520 (7th Cir. 1941); *Lionel Corp. v. De Filippis*, 11 F. Supp. 712, 716 (E.D.N.Y. 1935). In *Thiokol Chem. Corp. v. Burlington Inds.*, 448 F.2d 1328, 1332 (3d Cir. 1971), cert. denied, 40 U.S.L.W. 3315 (Nos. 71-570, 71-585) (Jan. 10, 1972), the court ruled that it would be improper for the federal court to proceed with trial of a declaratory judgment action commenced after a state court suit on the license agreement, "unless and until it shall . . . be found . . . that the state court is willing to hold the matter before it in abeyance . . ."

75. The possible alternative of enjoining the state litigation rests on far too flimsy grounds to be reconciled with the restrictions imposed by 28 U.S.C. § 2283 (1970). The broad overlap long recognized between state and federal power to determine patent questions precludes any claim that an injunction of the state proceedings is necessary in aid of the federal jurisdiction. See *Thiokol Chem. Corp. v. Burlington Inds.*, 448 F.2d 1328, 1331-32 (3d Cir. 1971), cert. denied, 40 U.S.L.W. 3315 (Nos. 71-570, 71-585) (Jan. 10, 1972). But compare *Chisum, The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*, 46 WASH. L. REV. 633 (1971).

capable of presentation as a question in the federal infringement jurisdiction. Nonetheless, there would almost certainly remain circumstances in which patent issues could not be taken to federal court by a licensee desirous of litigating them there.⁷⁶ To whatever extent this result remains, it is as inappropriate as in the other situations already examined.

3. *Assignment and Ownership Claims*

Assignments, as licenses, are basically contracts largely governed by state law; jurisdiction over actions to enforce or set aside an assignment is thus basically state jurisdiction.⁷⁷ As with licenses, it is of course possible that the assignment may be terminated, remitting the parties to their original rights under patent law, including access to infringement jurisdiction to enforce those rights.⁷⁸ Several cases, however, suggest that it is more difficult to obtain federal infringement jurisdiction when the dispute involves claims of a right to enforce an assignment and to concurrently enforce the patent rights springing from the assignment. Jurisdiction has frequently been refused when an attempt is made to secure a compelled assignment⁷⁹ or a declaration of ownership⁸⁰ together with relief against infringement. The basic rationale appears to be that proper pleading of a claim for infringement requires pleading title to the patent, and that unlike license situations where title has remained in the licensor throughout, the complaint in such cases shows that it is necessary to obtain judicial relief awarding or setting aside the assignment before a claim for infringe-

76. This result could be avoided by recognizing still another route into federal jurisdiction, allowing combination of a request for declaratory relief with the broad approach to the proper pleading of a federal question reflected in *Smith v. Kansas City Title & Trust Co.*, 255 U.S. 180 (1921). See *JFD Electronics Corp. v. Channel Master Corp.*, 229 F. Supp. 514 (S.D.N.Y. 1964), and Part I(C) *infra*.

77. See text accompanying notes 22-29 *supra*. See also, e.g., *Chicago Fittings Corp. v. Howe*, 309 F. Supp. 625 (N.D. Ill. 1970); *Aloe Creme Labs. v. Farkas*, 145 U.S.P.Q. 649 (S.D. Fla. 1965).

78. E.g., *Ortman v. Stanray Corp.*, 437 F.2d 231 (7th Cir. 1971).

79. E.g., *Cincinnati Shoe Mfg. Co. v. Vigorith*, 212 F.2d 583 (6th Cir. 1954); *Measurements Corp. v. Ferris Instr. Corp.*, 159 F.2d 590 (3d Cir. 1947); *Lion Mfg. Corp. v. Chicago Flexible Shaft Co.*, 106 F.2d 930 (7th Cir. 1939).

80. *Laning v. National Ribbon & Carbon Paper Mfg. Co.*, 125 F.2d 565 (7th Cir. 1942). A scholarly discussion of a closely related problem in the cognate copyright field is provided by Judge Friendly's opinion in *T. B. Harms Co. v. Eliscu*, 339 F.2d 823 (2d Cir. 1964), cert. denied, 381 U.S. 915 (1965).

ment is available.⁸¹ Since such relief is not founded on the patent laws, there is no federal jurisdiction.

This approach to assignment situations represents a realization of the threats lingering in some of the license decisions that perhaps nonjudicial termination of the license may not always be recognized as a basis for asserting infringement claims.⁸² Adroit pleading will accordingly be much less successful in invoking infringement jurisdiction. Nonetheless, it seems almost certain that, as with licenses, there will occur situations in which a party to an assignment relationship may be able to determine jurisdiction by the adeptness of his pleading.⁸³

Claims of ownership of a patented invention based on some ground other than assignment have encountered similar difficulty in avoiding the basic rule of exclusive state jurisdiction. The typical suit involves a claim that an invention was misappropriated by the patentee, who wrongfully procured the patent on another's invention. Federal jurisdiction has been refused both where the request for relief has included an assignment of the patent⁸⁴ and where it has been limited to a declaration of the patent's invalidity.⁸⁵ Likewise, jurisdiction has been refused where the plaintiff was the patentee seeking to establish the validity of the patent over claims that the defendant was the real inventor.⁸⁶ There is no reason at all why federal jurisdiction should not be available, as at least one court has recognized.⁸⁷

81. *Dill Mfg. Co. v. Goff*, 125 F.2d 676, 677-78 (6th Cir.), *cert. denied*, 317 U.S. 672 (1942).

82. See text accompanying note 54 *supra*.

83. See *Lang v. Patent Tile Co.*, 216 F.2d 254 (5th Cir. 1954), where the plaintiff brought suit for interpretation of the instrument claimed to be an assignment of the patent together with relief against infringement. Jurisdiction was denied on the ground that the primary and controlling purpose of the complaint was to secure an interpretation of the assignment. It seems highly likely that if suit had been brought simply for infringement, the plaintiff could have secured the desired relief.

84. *Eckert v. Braun*, 155 F.2d 517 (7th Cir. 1946).

85. *Howard v. Archer*, 115 F.2d 342 (9th Cir. 1940); *Sachs v. Cluett, Peabody & Co.*, 91 F. Supp. 37 (S.D.N.Y. 1950).

86. *Muskegon Piston Ring Co. v. Olsen*, 307 F.2d 85 (6th Cir. 1962), *cert. denied*, 371 U.S. 952 (1963). Although the result seems clearly wrong in terms of the existence of federal jurisdiction, it may be right on the unspoken ground that the courts should not interfere where the same dispute is pending in Patent Office interference proceedings. Compare *Grob v. Continental Mach. Specialties, Inc.*, 204 Minn. 459, 283 N.W. 774 (1939).

87. See *Cummings v. Moore*, 202 F.2d 145 (10th Cir. 1953) (accepting jurisdiction). Cf. *North Branch Prods., Inc. v. Fisher*, 284 F.2d

As with the areas previously examined, the jurisdictional lines suggested by this brief statement are susceptible of further blurring. Infringement jurisdiction has recently been held available where the plaintiff's right to an assignment depended on whether the invention made by the defendant was an "improvement" on the invention licensed to the defendant—a question which the court took to be one of patent law.⁸⁸ Since agreements to assign future inventions are often construed to require assignment only of patentable inventions,⁸⁹ this approach could bring several new cases into federal jurisdiction.⁹⁰ This approach also suggests a willingness to determine federal jurisdiction on the probability that a federal patent law question is actually involved in the suit; applied generally, it could be expanded to erase present jurisdictional lines almost completely.⁹¹

Finally, such blurred lines as remain are no more intelligible as a means of allocating jurisdiction than the other lines already sketched. At a minimum, the need to resort to state courts for determinations of patent ownership may require two lawsuits to vindicate the patent right. Worse, at least in the eyes of those who find important implications in the policy of federal exclusivity, state courts are apt to respond to the yen for efficiency by adding injunctive relief against future infringement.⁹² And in any event, there will remain a wide variety of circumstances in which federal jurisdiction cannot be invoked even though controlling issues of patent scope or validity are involved.⁹³

611 (D.C. Cir. 1960), *cert. denied*, 365 U.S. 827 (1961) (accepting suit for declaration of patent ownership not as one arising under the patent laws, but as resting in the "common-law equity jurisdiction" of the District Court for the District of Columbia).

88. *Imperial Appliance Corp. v. Hamilton Mfg. Co.*, 430 F.2d 185 (7th Cir. 1970).

89. *E.g.*, *Jamesbury Corp. v. Worcester Valve Co.*, 443 F.2d 205 (1st Cir. 1971); *Republic Engr'g & Mfg. Co. v. Moskovitz*, 376 S.W.2d 649 (Mo. App.), *cert. denied*, 379 U.S. 837 (1964). Of course such agreements are often construed to cover both patentable and nonpatentable inventions, in part because of the difficulty of distinguishing one from the other. *E.g.*, *Universal Winding Co. v. Clarke*, 108 F. Supp. 329 (D. Conn. 1952).

90. A particularly obscure opinion suggesting similar developments is found in *Papazian v. American Steel & Wire Co.*, 155 F. Supp. 111, 117 (N.D. Ohio 1957).

91. See Part I(C) *infra*.

92. See note 36 *supra*.

93. Claims by the assignee against the assignor will often lie only in state jurisdiction, barring a further expansion of present views. For

4. *Pendent Jurisdiction*

Jurisdictional distinctions could easily be blurred further still by resourceful use of pendent jurisdiction doctrines.⁹⁴ Earlier decisions were quite niggardly about allowing joinder of license or assignment claims to infringement claims.⁹⁵ More recently, as might be expected, a considerably more liberal approach has been taken to allow pendent joinder of such claims.⁹⁶ Nonetheless, there is no clear indication that federal courts are yet prepared to recognize such logical extensions as allowing pendent determination of a state law claim to enforce an assignment as a precondition to granting infringement relief, or

instance, a fully paid assignment might include an express warranty of validity; suit for its breach would hardly be susceptible to framing as an infringement claim.

It might be added that there are several other situations in which patent questions may be laced into an exclusive state jurisdiction. See, e.g., UNIFORM COMMERCIAL CODE § 2-312(3), providing implied warranties against infringement.

94. See generally *United Mine Workers of America v. Gibbs*, 338 U.S. 715 (1966).

95. E.g., *Kleinman v. Betty Dain Creations, Inc.*, 189 F.2d 546 (2d Cir. 1951) (refusing to consider license claim in infringement suit); *Loew's Drive-In Theatres, Inc. v. Park-In Theatres, Inc.*, 174 F.2d 547 (1st Cir.), cert. denied, 338 U.S. 822 (1949) (may not consider claim for royalties due before license termination in suit for infringement following termination); *Goss v. Henry McCleary Timber Co.*, 82 F.2d 476, 479-80 (9th Cir. 1936) (if license defense to infringement suit is sustained, plaintiff may not be granted recovery on the license); *Ellis-Foster Co. v. Synthetic Plastics Co.*, 8 F. Supp. 215 (D. Del. 1934) (license may not be reformed in suit by licensor for infringement). The Second Circuit has clearly indicated that it is no longer attached to the restrictive views of pendent jurisdiction exemplified by the *Kleinman* decision. See *Maternally Yours v. Your Maternity Shop*, 234 F.2d 538, 543-44 (2d Cir. 1956).

96. E.g., *Ortman v. Stanray Corp.*, 437 F.2d 231 (7th Cir. 1971) (assignment claims may be joined with infringement claims in suit by assignor after assignee terminated the assignment); *Pursche v. Atlas Scraper & Engr'g Co.*, 300 F.2d 467, 482-85 (9th Cir. 1961), cert. denied, 371 U.S. 911 (1962) (claims for misuse of confidential information after termination of license are claims of "unfair competition" within scope of 28 U.S.C. § 1338(b) (1970)); *McKnight v. Akins*, 192 F.2d 674 (6th Cir. 1951); *Research Frontiers Inc. v. Marks Polarized Corp.*, 290 F. Supp. 725, 728 (E.D.N.Y. 1968); *Consolidated Vacuum Corp. v. Machine Dynamics, Inc.*, 230 F. Supp. 70 (S.D. Cal. 1964); *Finnerty v. Wallen*, 77 F. Supp. 508 (N.D. Cal. 1948). Cf. *Dynamic Instrument Corp. v. Fedtro, Inc.*, 266 F. Supp. 848 (E.D.N.Y. 1967). None of these cases involves assertion of pendent jurisdiction to give relief under state law for the very same conduct complained of as infringement.

The statutory provision for asserting pendent jurisdiction in patent cases refers only to claims "of unfair competition." 28 U.S.C. § 1338(b) (1970). As may be suggested by the *Pursche* case, *supra*, it accordingly is not likely to be of much use in the present context.

allowing pendent enforcement of license rights after a licensee has successfully defended an infringement suit on the ground that there was a valid subsisting license.⁹⁷

Even if the logical steps are taken to extend pendent jurisdiction, they will not provide a method of ensured access to federal jurisdiction. Presumably there will remain cases which simply cannot be warped into a plausible allegation of infringement plus a contract or other pendent claim; a licensor wishing to recover royalties and to maintain the license, for instance, would hardly be able to make use of pendent jurisdiction. If a federal determination of patent questions is to be available to any party wishing it, some other line of development must be followed.

C. EXPANDING THE JURISDICTIONAL FRONTIERS⁹⁸

1. *Decisional Development*

The picture just painted presents a map of jurisdictional demarcations which correspond to no unifying principle. The more recent decisions canvassed above do suggest that federal courts are groping toward means of extending federal jurisdiction, presumably because of a strengthened belief that there are important public interests to be served by guarding against improvident extension of patent rights by inexperienced state tribunals. If there is no such solid reason to prefer federal adjudication of patent issues, these decisions and their ancestors are left with no support beyond unsatisfyingly formal distinctions of pleading. But if there is good reason to prefer federal adjudication of patent issues, the decisions have yet to provide any reliable means of ensuring that federal adjudication is available to any party wishing it.

97. The one clear, precise illustration is *Brooks v. Stolley*, 4 F. Cas. 302, 305 (Nos. 1,962, 1,963) (D. Ohio 1845, 1846). The court there ruled that in a suit brought by a licensor for infringement following failure of the licensee to pay royalties, it could consider the license claim on a theory which is clearly a theory of pendent jurisdiction; since there is infringement jurisdiction, "the court may decide other matters between the parties, which of themselves, might not afford ground for the original exercise of jurisdiction." *Id.* at 305. The ultimate disposition of the case was dismissal of the infringement claim with an order that the defendant pay accrued royalties.

98. A recent competent exposition of the possibilities of further expanding the scope of federal jurisdiction makes it possible to shorten this section. See Chisum, *The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*, 46 WASH. L. REV. 633, 664-70 (1971).

On balance, the preference for federal determination of patent issues is well founded.⁹⁹ Adjustment of jurisdictional lines to reflect perceived changes in the needs of the day is thus appropriate.¹⁰⁰ How far courts should attempt to forward this task, and how much of it it should be remitted to legislative decision, is nonetheless a difficult problem. The ideal resolution of present tensions goes far beyond simple adjustments of adjudicating competence. The best solution lies in federalizing the law of patent agreements and of any unfair competition theories involving patents which should not be discarded. Access to federal jurisdiction would be correspondingly broad, although under present statutes it would probably be necessary to satisfy the jurisdictional amount requirement of the general federal question jurisdiction.¹⁰¹ The grounds for preferring this solution, however, are sufficiently debatable that the solution is one which the courts should not attempt without affirmative Congressional guidance.

If courts should continue to recognize the dominion of state law over patent agreements, expansion of federal jurisdiction will entail the always undesirable consequence of separating legislative from judicial authority.¹⁰² The very reasons which

99. See Part III(B) *infra*.

100. Compare Frankfurter, *Distribution of Judicial Power Between United States and State Courts*, 13 CORN. L.Q. 499, 503, 506 (1928):

A division of judicial labor among different courts, particularly between a dual system of federal and state courts, is especially subject to the shifting needs of time and circumstance. That the wisdom of 1875 is the wisdom for today is most unlikely. . . . We are here in the domain of administrative effectiveness and procedural adaptations—matters not of principle but of wise expediency.

101. The patent jurisdiction statute, 28 U.S.C. § 1338(a) (1970), confers jurisdiction over actions arising "under any Act of Congress relating to patents." It would be far more difficult to read this phrase to encompass actions governed by a federal common law of patent agreements than it would be to assert jurisdiction over federal common law claims under the general provision for jurisdiction of civil actions arising under the "laws . . . of the United States," 28 U.S.C. § 1331(a) (1970). See generally *Ivy Broadcasting Co. v. American Tel. & Tel. Co.*, 391 F.2d 386 (2d Cir. 1968); ALI, *STUDY OF THE DIVISION OF JURISDICTION BETWEEN STATE AND FEDERAL COURTS* 178 (1968).

It would be possible to determine that § 1338 applied, of course. The basic line of reasoning would be that the judicial decision to create a federal common law of patent agreements rests on the needs of the patent system created by statute; actions arising under the common law thus derived would accordingly arise from the Patent Code as an ultimate source. Not only does this approach seem a rather strong-armed interpretation of the statute, but it also entails the result that federal jurisdiction would be exclusive.

102. The clearest brief statement has been provided with refer-

mitigate against continued state control, however, minimize the importance of this loss. In brief, no state has a well developed body of patent agreements law distinct from general contract doctrines; there is little reason to fear any significant intrusion on state interests when federal courts attempt to resolve specific disputes. Nor is there any great danger of interfering with primary private planning of patent contracts—such contracts are significantly removed from the generality of commercial transactions. Both the underdevelopment of state law and the multi-state nature of many patent transactions suggest the improbability of reliance on specific state law; where there is significant reliance on specific state law, it seems likely that the federal courts will be able to apply it well enough.

Once it is decided to expand federal jurisdiction, ample means are at hand to accomplish most of the task. The most obvious means lies in application of the doctrine attributed to *Smith v. Kansas City Title & Trust Company*,¹⁰³ allowing invocation of federal question jurisdiction over a state-created claim when proper pleading of the claim shows that resolution of a federal question is necessary to its determination. Language contemplating this result may be found in various patent decisions,¹⁰⁴ and a few decisions have squarely adopted this theory

ence to federal diversity jurisdiction, noting that

withdrawal of these cases from state judicial processes involves . . . a patent violation of the principle so strongly urged originally to justify the federal judicial power: the judicial authority must be coextensive with the legislative.

Wechsler, *Federal Jurisdiction and the Revision of the Judicial Code*, 13 LAW & CONTEMP. PROB. 216, 235 (1948).

103. 255 U.S. 180 (1921).

104. The clearest illustration is *Henry v. A. B. Dick Co.*, 224 U.S. 1, 16 (1912), where it was stated:

The test of jurisdiction is this: Does the complainant "set up some right, title or interest under the patent laws of the United States, or make it appear that some right or privilege will be defeated by one construction, or sustained by another, of those laws"?

An even more precise formulation is provided by the dissenting opinion of Mr. Justice Bradley in *Hartell v. Tilghman*, 99 U.S. 547, 556 (1878).

Of course it was in a case affecting patent questions that Mr. Justice Holmes—a dissenter in *Smith*—announced his more limiting test that "[a] suit arises under the law that creates the cause of action." *American Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 260 (1916). An apt appraisal of the present possibilities of these lines of authority in a copyright context, involving the very same statute as the patent statute, is found in *T. B. Harms Co. v. Eliscu*, 339 F.2d 823 (2d Cir. 1964), cert. denied, 381 U.S. 915 (1965). See ALI, *STUDY OF THE DIVISION OF JURISDICTION BETWEEN STATE AND FEDERAL COURTS* 178-79 (1968).

to support federal jurisdiction over state-created claims of unfair competition.¹⁰⁵ One court, without recognizing the conceptual problems, has even allowed federal jurisdiction over a suit to collect royalties on a license agreement by reasoning that the suit must inevitably involve determination of the scope of the licensed patent.¹⁰⁶ It seems likely, however, that few courts would be willing to push this far in situations where there is no indication that the party asserting the state-created claim has justification in the actual pre-litigation dispute for asserting the need to determine patent questions.¹⁰⁷

However far the *Smith* theory may be taken, moreover, it directly aids only the party wishing to assert an affirmative claim for relief. The party who wishes federal determination of defenses involving questions of patent law against a state-created claim is left with the need to invoke declaratory judgment remedies with such help as the general *Smith* approach may lend in urging the appropriateness of allowing declaratory anticipation of a state court suit.¹⁰⁸ As already noted, general acceptance of this method of invoking federal jurisdiction does not seem to justify enjoining state court proceedings instituted before the federal suit was commenced.¹⁰⁹ Nor does it seem likely that this problem could be avoided by allowing the state-court defendant to remove on the ground that there is original

105. See *Ostow & Jacobs, Inc. v. Morgan-Jones, Inc.*, 180 F. Supp. 38 (S.D.N.Y. 1959), *rehearing denied*, 189 F. Supp. 697 (S.D.N.Y. 1960). Judge Dimock's approach was followed in *I.C.E. Corp. v. Armco Steel Corp.*, 201 F. Supp. 411 (S.D.N.Y. 1961) (alternate ground), and *JFD Electronics Corp. v. Channel Master Corp.*, 229 F. Supp. 514 (S.D.N.Y. 1964). The *JFD* decision is criticized in *Thiokol Chem. Corp. v. Burlington Ind.*, 313 F. Supp. 253, 257 (D. Del. 1970), *aff'd*, 448 F.2d 1328 (3d Cir.), *cert. denied*, 40 U.S.L.W. 3315 (Nos. 71-570, 71-585) (Jan. 10, 1972).

106. *International Harvester Co. v. Long Mfg. Co.*, 235 F. Supp. 223 (E.D.N.C. 1964). Cf. *Imperial Appliance Corp. v. Hamilton Mfg. Co.*, 430 F.2d 185 (7th Cir. 1970). See also text accompanying note 88 *supra*. *Imperial Appliance* relied on similar notions to uphold infringement jurisdiction where the complaint shows that resolution of an underlying assignment dispute will turn on questions of patent law.

107. Royalty suits, for instance, could easily involve disputes as to the basis for payment, the output of the licensee if that happened to be the method for calculating payment, claims of prior payment, and so on and on. Unless the licensee has affirmatively explained the basis for his refusal to pay all the licensor demands, there is apt to be no satisfactory basis for determining whether patent law questions will be raised. Examples could be multiplied throughout the range of patent agreements, but this illustration should suffice.

108. See Part I(B) (2) *supra*.

109. See note 75 *supra*.

federal jurisdiction over all suits on patent agreements. So long as state law controls such agreements, it would be simply bizarre to cast aside the long standing notion that a plaintiff may choose whether to found his claim on federal law¹¹⁰ and to convert the *Smith* doctrine from an optional route into federal jurisdiction into a mandatory ruling that this class of state-created claims inevitably arises under federal law.

Ingenuity, coupled with some disingenuousness, might find means to overcome the apparent limitations on available theory and provide access to federal determination of patent law issues whenever any party to a litigation desires it.¹¹¹ It seems more likely, however, that decisional developments alone will not complete the task.

2. Legislative Development

It has already been suggested that Congress should provide for a federal law of patent agreements and of any still viable unfair competition doctrines involving patents. A statute conferring federal jurisdiction and explicitly authorizing the development of federal decisional law could be simply drafted and ample to the task.¹¹² Jurisdiction could safely be made concurrent with state courts since either party could take the case to federal court if desired, and since both parties might be content with state adjudication for reasons of convenience.

If state law should continue to control the underlying contract and tort principles, the desire to provide federal determination of patent law claims could be met easily by a statute allowing removal to federal court by either party to any suit in which questions controlled by federal patent law are raised.¹¹³

110. The principles are restated in *Pan American Petrol. Corp. v. Superior Court*, 366 U.S. 656 (1961).

111. See Chisum, *The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*, 46 WASH. L. REV. 633, 664-70 (1971).

112. The model would be Section 301 of the Labor Management Relations Act, 29 U.S.C. § 185 (1970), supplemented by a clear direction to develop controlling principles of federal common law.

113. The proposed revision of the Judicial Code drafted by the American Law Institute, and embodied in S. 1876 § 1312(a)(2), 92d Cong., 1st Sess. (1971), provides for removal of state court cases to federal court by either plaintiff or defendant when a substantial defense arising under federal law is "properly asserted that, if sustained, would be dispositive of the action or of all counterclaims therein." It is not clear whether this language would cover all questions of patent law which might be raised in litigation on a patent contract. Initially, it would need to be established that such defenses as an assertion that a licensed patent is invalid or does not cover the licensee's production

It might even be possible to provide for referral of the state law matters back to the state court,¹¹⁴ although the price of complication seems too high to pay for the gain of state rulings on questions of state law. The possible alternative of authorizing a "protective" jurisdiction for all litigation involving patent agreements or claims of unfair competition involving patents on the chance that patent law questions might be involved would entail an unnecessary separation of legislative and judicial authority and should not be adopted.¹¹⁵

II. APPLICATION OF STATE LAW TO PATENT TRANSACTIONS

A. ORIGINS OF STATE AUTHORITY

State law today clearly controls many incidents of patents. Ownership, agreements between co-owners, assignments, licenses, agreements not to infringe, and some torts involving patent rights are all, in varying degrees, subject to state law.

"arise under" federal law rather than under the state contract law. Beyond that point, there might be cases in which disposition of the patent law question in favor of the defendant would not be "dispositive of the action," particularly where the agreement combines patent rights and trade secret rights protected by state law. Cf. ALI, *STUDY OF THE DIVISION OF JURISDICTION BETWEEN STATE AND FEDERAL COURTS* 197-98 (1968). Finally, the statute requires that the amount in controversy exceed \$10,000; it does not seem likely that the level of the public interest in federal disposition of patent questions can be accurately measured by the amount in dispute in a particular private contract suit.

A much more restricted removal proposal was suggested by former Assistant Attorney General Richard W. McLaren, limiting removal to situations in which a "licensee" asserts a claim of patent invalidity. See 518 B.N.A. *ANTITRUST & TRADE REG. REP.*, at A-3 (June 15, 1971).

114. Although some care would need to be taken to avoid limiting the role of the federal court so far as to raise questions whether it was determining a "case" or "controversy," the acceptance of reference of state law questions to state courts in diversity litigation suggests strongly that some constitutional arrangement could be found. See H. M. HART, JR., & H. WECHSLER, *FEDERAL COURTS* 757 (1953). Cf. C. WRIGHT, *FEDERAL COURTS* 203-05 (2d ed. 1970); Mattis, *Certification of Questions of State Law: An Impractical Tool in the Hands of Federal Courts*, 23 U. MIAMI L. REV. 717 (1969).

115. General discussions of the problems of "protective jurisdiction" may be found in C. WRIGHT, *FEDERAL COURTS* § 20 (2d ed. 1970); H. M. HART, JR. & H. WECHSLER, *FEDERAL COURTS* 744-47 (1953); Mishkin, *The "Federal Question" in the Federal Courts*, 53 COLUM. L. REV. 157, 184-96 (1953); Wechsler, *Federal Jurisdiction and the Revision of the Judicial Code*, 13 L. & CONTEMP. PROB. 216, 224-25 (1948); Note, *Federal Jurisdiction—Protective Jurisdiction and Adoption as Alternative Techniques for Conferring Jurisdiction on Federal Courts in Consumer Class Actions*, 69 MICH. L. REV. 710 (1971).

This allocation of authority historically rests in large measure on the decisions drawing the basic jurisdictional lines painted above. To the very limited extent that current thought has been focused on the division of authority, it draws upon the same reasons as the historic jurisdictional decisions. Statement of the current state of matters may thus be mingled with a re-statement of the history already explored from the jurisdictional perspective in which it was originally cast.

I. General Authority of State Law

Federal patent law is commonly thought not to give even the right to practice an inventor's discovery. Instead, it defines a negative—but potentially very valuable—right to exclude others from making, using, or selling an invention which was previously the property of the inventor by virtue of state law.¹¹⁶ Once the patent issues, moreover, it has been assumed that the patent itself is endowed with the characteristics of personal property¹¹⁷ and—like land conveyed by the federal government under a “patent” to a private party—becomes subject to state law as the primary original source of protection of property rights.¹¹⁸ As with other property, consensual and tortious transactions are to be governed by state law since there is no extensive federal statutory regulation of such mat-

116. *E.g.*, *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 36 (1923), where the court stated that “[t]he Government is not granting the common law right to make, use and vend, but it is granting the incident of exclusive ownership of that common law right, which can not be enjoyed save with the common law right.” See also 35 U.S.C. § 154 (1970).

Likewise, in *Becher v. Contoure Labs., Inc.*, 279 U.S. 388, 391 (1929), the Court approved granting collateral estoppel effect in federal infringement litigation to a state court determination that the patentee had wrongfully appropriated the invention, stating that the inventor's right

was independent of and prior to any arising out of the patent law, and it seems a strange suggestion that the assertion of that right can be removed from the cognizance of the tribunals established to protect it by its opponent going into the patent office for a later title.

117. This proposition is now embodied in statutory form. See 35 U.S.C. § 261 (1970), which provides that “[s]ubject to the provisions of this title, patents shall have the attributes of personal property.”

118. The analogy to land granted by the federal government was squarely adopted in denying jurisdiction in *Hartell v. Tilghman*, 99 U.S. 547, 549 (1878). Similarly, it was commonly reasoned that once goods covered by a patent had been sold, they passed out from the patent monopoly and became subject to general state law for protection and enforcement of contractual rights. *E.g.*, *Hill v. Whitcomb*, 12 F. Cas. 182 (No. 6,502) (D. Mass. 1874).

ters.¹¹⁹ There is no reason to doubt that when the federal courts determined for reasons like those just summarized that cases concerning ownership, licenses, assignments, or disparagement involving patent rights did not arise under federal patent laws for purposes of federal jurisdiction, they meant the conclusion that state law was controlling.¹²⁰ Three major lines of reasoning may be added to support the natural implication of these jurisdictional rulings.

First, and most positively, there are a number of decisions in which the Supreme Court refused to review state court decisions involving transactions affecting patents.¹²¹ The ground of decision in each case was that no question of federal law was presented by the state ruling. Since it is clear that the Supreme Court did pay careful attention to the sources of controlling law in determining whether it had power to review state decisions,¹²² these cases demonstrate clear attention to the question of controlling law and a clear determination that state law—not federal—applied to the matters under attempted review.

119. Cases denying federal jurisdiction quite frequently made much of the fact that there was no general statutory provision for patent licenses. *E.g.*, *Wilson v. Sandford*, 51 U.S. (10 How.) 99, 101-02 (1850). See also *Albright v. Teas*, 106 U.S. 613, 618 (1882). It may be noted that if a statutory foundation for federal decisional law had been desired, it would have been easy to find. Rights against infringers have been created as rights against those who "without authority" do the prohibited acts. See 35 U.S.C. § 271(a) (1970). The very first Patent Act, indeed, provided an infringement remedy against anyone practicing the patented invention "without the consent of the patentee . . . first had and obtained in writing." Act of April 10, 1790, ch. 7, § 4, 1 Stat. 109, 111. No great ingenuity would have been required to treat this provision as explicit foundation for patent licensing and for a federal law regulating the licensing practices thus authorized.

120. A concise statement is provided by Justice Traynor's opinion in *Farmland Irrigation Co. v. Dopplmaier*, 48 Cal. 2d 208, 308 P.2d 732, 737-38 (1957).

121. *Wade v. Lawder*, 165 U.S. 624 (1897) (dismissing writ of error to state court decision refusing to rescind assignment of patent on claims of fraud and misrepresentation); *Marsh v. Nichols, Shepard & Co.*, 140 U.S. 344 (1891) (dismissing writ of error to state decision specifically enforcing patentee's agreement releasing another from any claims arising from any use of the patented invention at any time); *Felix v. Scharnweber*, 125 U.S. 54 (1888) (dismissing writ of error to state decision enforcing agreement regulating rights of co-owners of patent); *Dale Tile Mfg. Co. v. Hyatt*, 125 U.S. 46 (1888) (court has no jurisdiction on writ of error to review state determination that licensee is estopped to challenge validity of patent).

122. See Hill, *The Law-Making Power of the Federal Courts: Constitutional Preemption*, 67 COLUM. L. REV. 1024, 1035 n.67 (1967).

Second, although more ambiguously, there have long been areas in which a grant of federal jurisdiction has been understood to include a grant of power to the federal courts to make rules of law binding on all courts, state as well as federal.¹²³ The awareness of the possible correlation between law-making competence and jurisdiction demonstrated by these areas does not force a conclusion that state law would have been superseded if federal jurisdiction had been found to cover cases involving merely patent transactions. Nonetheless, it does underscore the unlikely nature of the possibility that federal decisional law might somehow be thought controlling in an area where there was no opportunity for original federal decision.¹²⁴ Since the jurisdictional cases clearly embraced the proposition that there was no controlling basis in federal statutory law, rather than decisional law, the conclusion that state law was understood to control seems strong.

The ambiguity of the second ground suggests the final ground for supposing there was a conscious assumption that state law controlled. Prior to the intense concern focused on such matters by the *Erie* decision,¹²⁵ there was very seldom a deliberate determination that some matters should be governed by a nonstatutory federal law.¹²⁶ In some measure, this lack of explicit federalization may have resulted from the fact that

123. See H.M. Hart, Jr., *The Relations Between State and Federal Law*, 54 COLUM. L. REV. 489, 530-33 (1954). Admiralty jurisdiction is of course the classic example, although the role of state courts is too complex to illustrate well the fealty of state courts to federal decisional law. See also Hill, *supra* note 122, at 1071, suggesting that congressional control over federal judicial jurisdiction provides a form of political control over the occasions for federal common lawmaking.

124. The alternative possibility of finding federal jurisdiction over cases involving patent transactions as cases arising under a federal common law of patent transactions, although not arising under the patent statutes as such, was not available until the 1875 enactment of general federal question jurisdiction. Act of March 3, 1875, ch. 137, § 1, 18 Stat. (Pt. III) 470. Whatever else may be said of the history of the 1875 statute, it seems certain that it was not intended or understood to interfere with the general allocation of lawmaking power. See generally Chadbourn & Levin, *Original Jurisdiction of Federal Questions*, 90 U. PA. L. REV. 639, 639-45 (1942); Forrester, *The Nature of a "Federal Question,"* 16 TUL. L. REV. 362 (1942); Forrester, *Federal Question Jurisdiction and Section 5*, 18 TUL. L. REV. 263 (1943).

125. *Erie R.R. v. Tompkins*, 304 U.S. 64 (1938).

126. E.g., Friendly, *In Praise of Erie—And of the New Federal Common Law*, 39 N.Y.U.L. REV. 383, 407 (1964); Hill, *The Law-Making Power of the Federal Courts: Constitutional Preemption*, 67 COLUM. L. REV. 1024, 1035 (1967); Mishkin, *The Variousness of "Federal Law": Competence and Discretion in the Choice of National and State Rules For Decision*, 105 U. PA. L. REV. 797, 798 (1957).

when diversity litigation presented the opportunity, many matters could be resolved by the federal courts according to their own views of "general" law without constraint by state court decisions. Beyond that, it may well be that the federal courts genuinely expected that the views of general law expressed in diversity litigation represented, and would reinforce, some general consensus as to what the law actually "was." In such a setting federal courts would not feel a strong drive toward pre-emption of state law in order to implement their own views of good law. Further exploration of this hypothesis may well be conducted through a review of the approach taken by federal courts to the questions of state law raised by litigation involving patent transactions. The conclusion may be stated briefly: the federal courts answered many questions concerning transactions in patent rights as matters of general law not controlled by the decisions of any particular state court.

2. Federal Court Determination of State Law

In the pre-*Erie* era, state law was expressly employed by federal courts in varying patent contexts including infringement litigation.¹²⁷ For present purposes the most useful illustration is provided by federal treatment of license issues. There are only a few vague pronouncements addressed directly to the question,¹²⁸ but it seems entirely clear that matters of license law were treated as questions of general law as to which the decisions of any particular state court were not controlling.¹²⁹ This approach was taken in a host of pre-*Erie* cases in which a

127. *E.g.*, *American Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257 (1916) (interference with plaintiff's business by assertions that plaintiff's products infringe defendant's patent); *H. C. Cook Co. v. Beecher*, 217 U.S. 497 (1910) (liability of directors on infringement judgment against corporation); *Campbell v. Haverhill*, 155 U.S. 610 (1895) (Rules of Decision Act adopts state statutes of limitations for infringement suits); *Motor Wheel Corp. v. Rubsam Corp.*, 92 F.2d 129 (6th Cir.), *pet. for cert. dismissed*, 302 U.S. 771 (1937), *cert. denied*, 304 U.S. 560 (1938) (submission of license interpretation to jury); *Mershon v. O'Neill*, 12 F. Supp. 282 (E.D.N.Y. 1935) (Conformity Act governs pleading in infringement suit by state practice).

128. *See* *Henry v. A. B. Dick Co.*, 224 U.S. 1, 12-13, 15 (1912); *New Marshall Engine Co. v. Marshall Engine Co.*, 223 U.S. 473 (1912); *Oliver v. Rumford Chem. Works*, 109 U.S. 75, 83 (1883). At the very least, the statements in these cases that license and assignment questions are matters of general law do not reflect a deliberate consideration of the issue.

129. So Justice Traynor concluded in *Farmland Irrigation Co. v. Dopplmaier*, 48 Cal. 2d 208, 308 P.2d 732, 738 (1957), without citing any cases. Ordinarily, questions of contract interpretation were treated as matters of general law. *E.g.*, 6 W. HUGHES, *FEDERAL PRACTICE* § 3764 at

wide variety of license issues were determined either without reference to state decisions or with reference to state decisions at large without any indication they were more than evidence of the general law. This same method is reflected both in litigation seeking direct enforcement of the license agreement¹³⁰ and in infringement litigation involving a license defense.¹³¹

Treatment of patent license issues as matters of general law is not in any way inconsistent with the conclusion that state law as such was controlling. To be sure, pre-*Erie* critics of the doctrine that federal courts were free to ignore state court decisions in matters of "general" law often charged that the federal courts were creating their own unauthorized common law.¹³² A few defenders of the federal practice could be found to urge that its only shortcoming was that the federal courts had been too timorous to compel state court adherence to their

305-11 (1931); Sharp & Brennan, *The Application of the Doctrine of Swift v. Tyson since 1900*, 4 IND. L.J. 367, 372 (1929).

130. *E.g.*, Thorn Wire Hedge Co. v. Washburn & Moen Mfg. Co., 159 U.S. 423, 449-50 (1895); Cincinnati Siemens-Lungren Gas Illuminating Co. v. Western Siemens-Lungren Co., 152 U.S. 200 (1894); Pope Mfg. Co. v. Gormully, 144 U.S. 224 (1892); National Pigments & Chem. Co. v. C. K. Williams & Co., 94 F.2d 792 (8th Cir. 1938); Eureka Co. v. Henney Motor Co., 91 F.2d 708 (3d Cir. 1937); Penley Bros. v. Hall, 84 F.2d 317 (1st Cir. 1936); Krell v. Bovaird Supply Co., 83 F.2d 414 (10th Cir. 1936); Vulcan Mfg. Co. v. Maytag Co., 73 F.2d 136 (8th Cir. 1934), *cert. dismissed*, 294 U.S. 734 (1935); Sun Oil Co. v. Red River Ref. Co., 29 F.2d 827 (7th Cir. 1928); Westinghouse Elec. & Mfg. Co. v. Tri-City Radio Elec. Supply Co., 23 F.2d 628 (8th Cir. 1927); Ben-Wat Corp. v. David Lupton's Sons Co., 13 F.2d 390 (3d Cir. 1926); Newport News Shipbuilding & Dry Dock Co. v. Isherwood, 5 F.2d 924 (4th Cir.), *pet. for cert. dismissed & cert. denied*, 269 U.S. 552, 592 (1925); Standard Appliance Co. v. Standard Equip. Co., 296 F. 456 (6th Cir. 1924); Bird's-Eye Veneer Co. v. Franck-Philipson & Co., 259 F. 266 (6th Cir. 1918); Life Preserver Suit Co. v. National Life Preserver Co., 252 F. 139 (2d Cir.), *cert. denied*, 248 U.S. 571 (1918); Bijur Motor Lighting Co. v. Eclipse Mach. Co., 243 F. 600 (2d Cir. 1917); Confectioners' Mach. & Mfg. Co. v. Panoualias, 134 F. 393 (2d Cir. 1904); Leicester & Continental Mills Co. v. Macon Knitting Co., 116 F. 196 (3d Cir. 1902).

131. *E.g.*, De Forest Radio Tel. Co. v. United States, 273 U.S. 236 (1927); Topliff v. Topliff, 122 U.S. 121 (1887); Rubber Co. v. Good-year, 76 U.S. (9 Wall.) 788, 799-800 (1869); Freeman v. Seiberling Rubber Co., 72 F.2d 124 (6th Cir. 1934); Finley v. Asphalt Paving Co., 69 F.2d 498 (8th Cir. 1934); Radio-Craft Co. v. Westinghouse Elec. & Mfg. Co., 7 F.2d 432 (3d Cir. 1925); Westinghouse Elec. & Mfg. Co. v. Cutting & Washington Radio Corp., 294 F. 671 (2d Cir. 1923); Dunkley Co. v. California Packing Corp., 277 F. 996 (2d Cir.), *cert. denied*, 257 U.S. 644 (1921).

132. *E.g.*, J. LONG, OUTLINE OF THE JURISDICTION AND PROCEDURE OF THE FEDERAL COURTS 10, 13, 16-17, 64 (1917); 1 W. ROSE, CODE OF FEDERAL PROCEDURE 95 (1907) (more ambiguous statements may be found at 66, 82, 105, 113); von Moschzisker, *The Common Law and our Federal Jurisprudence*, 74 U. PA. L. REV. 367, 368-69 (1926).

views as rules of supreme federal law.¹³³ By far the better view, however, is that the federal courts genuinely believed in some way we now find it hard to comprehend that they were simply engaged in discharging the duty of determining for themselves, as well as they could, what state law actually was, treating state court decisions simply as evidence of state law.¹³⁴ So, to take an example from the present area, if state law chanced to provide a statute governing some aspect of a patent license transaction, the statute was followed without question.¹³⁵

Again, the evidence is not by itself conclusive, but in total there seems no escape from the conclusion that federal courts were bound to the view that state law controlled many aspects of patent transactions, and were aware of the view, long before the *Erie* decision redefined the federalistic ground rules for measuring judicial lawmaking authority. The remainder of the story is that of attempting to locate the boundaries in which state law operates today as a foundation for the inquiry whether the boundaries should be redrawn. The balance of this section will explore the boundaries of each of the major areas in which state law now affects patent rights.

B. LICENSE AGREEMENTS

1. *In General*

The historic ground for excluding license litigation from federal patent jurisdiction was in large part that licenses have no statutory basis. This explanation is still ordinarily offered in

133. *E.g.*, Schofield, *Swift v. Tyson: Uniformity of Judge-Made State Law in State and Federal Courts*, 4 ILL. L. REV. (Nw. U.L. Rev.) 533 (1910).

134. Contemporary statements of commentators include 3 R. FOSTER, *FEDERAL PRACTICE* 2455 (6th ed. 1921); R. HUGHES, *HANDBOOK OF JURISDICTION AND PROCEDURE IN UNITED STATES COURTS* 6-7 (2d ed. 1913).

One of the clearest statements by the Supreme Court is provided by *Burgess v. Seligman*, 107 U.S. 20, 34-35 (1882). The most delightful illustration is doubtless *Snare & Triest Co. v. Friedman*, 169 F. 1 (3d Cir.), *cert. denied*, 214 U.S. 518 (1909). After stating in painful detail that federal diversity courts are simply engaged in determining from all available evidence what state law may be and are not attempting to create a body of federal common law, the court determined that a decision of the highest state court growing out of the very fact situation before it did not represent state law.

The most thoughtful current statement is H. M. Hart, Jr., *The Relations Between State and Federal Law*, 54 COLUM. L. REV. 489, 505 (1954).

135. *See Radio Corp. of America v. Cable Radio Tube Corp.*, 66 F.2d 778 (2d Cir. 1933), *cert. denied*, 290 U.S. 703 (1934), applying the state statute of frauds to bar proof of a claimed oral license.

statements that licenses, as all other ordinary contracts, are governed by state law.¹³⁶ Patent license forms, indeed, frequently include provisions choosing which state's law is to be applied to their construction and enforcement.¹³⁷

In line with this general statement, decisions may readily be found referring a wide variety of common contractual problems to state law. State law has been applied to such patent license issues as defining the general rules of interpretation,¹³⁸ capacity to contract,¹³⁹ fraudulent procurement of the license,¹⁴⁰ the "shop right" of an employer to a license of employee inventions,¹⁴¹ consideration,¹⁴² failure of consideration¹⁴³ and perhaps eviction,¹⁴⁴ definiteness required of a con-

136. *E.g.*, R. NORDHAUS, *PATENT LICENSE AGREEMENTS* 2-3 (1967); 2 W. ROBINSON, *PATENTS* § 806 (1890); H. TOULMIN, *HANDBOOK OF PATENTS* 433 (1954); Shaw & Allen, *Patent Assignments and Licenses*, in *PATENTS, RESEARCH AND MANAGEMENT* 347, 351 (H. Forman, ed. 1961). Recent recommendations for statutory clarification of the licensable nature of patents seem to be aimed at establishing the legitimacy of various license terms against possible claims of misuse, rather than federalizing license law. *E.g.*, PRESIDENT'S COMMISSION ON THE PATENT SYSTEM, "To Promote the Progress of the . . . Useful Arts," Recommendation XXII; S. Doc. No. 5, 90th Cong., 1st Sess. (1967).

137. *E.g.*, W. NAVIN, *PATENTS* 103 (rev. ed. 1966); R. NORDHAUS, *PATENT LICENSE AGREEMENTS* 211-12 (1967); A. SEIDEL, *WHAT THE GENERAL PRACTITIONER SHOULD KNOW ABOUT PATENT LAW AND PRACTICE*, 163, 167 (1966). *Western Geo. Co. v. Bolt Assoc., Inc.*, 1972 Trade Cases ¶ 73872 (D. Conn.).

138. *E.g.*, *U.S. Inds., Inc. v. Camco, Inc.*, 277 F.2d 292, 293, 297 (5th Cir. 1960); *Peerless Weighing & Vending Mach. Corp. v. International Ticket Scale Corp.*, 126 F.2d 239, 241 (3d Cir. 1942).

139. *E.g.*, R. ELLIS, *PATENT LICENSES* § 78 (A. Deller ed. 1958).

140. *Globe Steel Abrasive Co. v. National Metal Abrasive Co.*, 101 F.2d 489, 491 (6th Cir. 1939).

141. *See Standard Brands Inc. v. U.S. Partition & Packaging Corp.*, 199 F. Supp. 161, 176-77 (E.D. Wis. 1961). Several other cases may be found in which shop-right questions are apparently treated as subject to state law, but without express discussion. *E.g.*, *Jamesbury Corp. v. Worcester Valve Co.*, 443 F.2d 205 (1st Cir. 1971); *Gate-Way, Inc. v. Hillgren*, 82 F. Supp. 546 (S.D. Cal. 1949), *aff'd per curiam*, 181 F.2d 1010 (9th Cir. 1950); *Cahill v. Regan*, 5 N.Y.2d 292, 157 N.E.2d 505, 184 N.Y.S.2d 348 (1959).

142. *E.g.*, *Autographic Register Co. v. Philip Hano Co.*, 198 F.2d 208 (1st Cir. 1952) (performance of preexisting obligation as consideration for modification of contract); *Chicago Pneumatic Tool Co. v. Ziegler*, 151 F.2d 784 (3d Cir. 1945).

143. *National Foam System v. Urquhart*, 202 F.2d 659, 661 (3d Cir. 1953).

144. Eviction involves such matters as rulings in litigation involving other parties that the licensed patent is invalid or much narrower than originally supposed. *E.g.*, *Patterson-Ballagh Corp. v. Byron Jackson Co.*, 145 F.2d 786 (9th Cir. 1944); *Wynne v. Allen*, 245 N.C. 421, 96 S.E.2d 422 (1957); Previto, *License on an Invalid Patent*, in 2 *PRACTICAL PATENT LICENSING* 86, 92 (A. Davis, Jr. ed. 1969).

tractual promise,¹⁴⁵ statutes of frauds,¹⁴⁶ the peculiar consequences of sealed instruments,¹⁴⁷ the parol evidence rule,¹⁴⁸ implied warranties,¹⁴⁹ assignability of the licensee's rights,¹⁵⁰ the dependency of mutual promises and waiver of breach by continuing performance,¹⁵¹ capacity to be sued,¹⁵² choice of law rules,¹⁵³ rescission,¹⁵⁴ and reformation.¹⁵⁵ Separate mention deserves to be made of a state court division of the proceeds of a federal infringement judgment between licensor and exclusive licensee, quite apparently as a matter of state law.¹⁵⁶

In *Scherr v. Difco Labs.*, 401 F.2d 443 (6th Cir. 1968), the court expressly left open the question whether eviction should be treated as a question of state or federal law. See *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 334 F. Supp. 1269 (W.D. Tenn. 1971), discussed in note 157 *infra*.

145. *Price v. Block*, 124 F.2d 738 (7th Cir. 1941).

146. *E.g.*, *Matthews v. Continental Roll & Steel Foundry Co.*, 121 F.2d 594 (3d Cir. 1941); *Radio Corp. of America v. Cable Radio Tube Corp.*, 66 F.2d 778 (2d Cir. 1933), *cert. denied*, 290 U.S. 703 (1934); *Gate-Way, Inc. v. Hillgren*, 82 F. Supp. 546 (S.D. Cal. 1949), *aff'd per curiam*, 181 F.2d 1010 (9th Cir. 1950); *Kurtz v. Ford Motor Co.*, 62 F. Supp. 255 (E.D. Mich. 1945); *Duggan v. Mills Novelty Co.*, 53 U.S.P.Q. 123 (W.D. Pa. 1942). As might be guessed, difficulty is commonly encountered with statutory provisions relating to agreements not to be performed within a year from the making.

147. *Chicago Pneumatic Tool Co. v. Ziegler*, 151 F.2d 784 (3d Cir. 1945).

148. *E.g.*, *Black v. Richfield Oil Corp.*, 146 F.2d 801 (9th Cir. 1944), *cert. denied*, 325 U.S. 867 (1945); *Price v. Block*, 124 F.2d 738 (7th Cir. 1941).

149. At the least, general discussions of implied warranties in patent licenses approach the matter as one of general contract doctrine without any indication that federal law imposes any limitations on state law. *E.g.*, R. ELLIS, *PATENT LICENSES* ch. 27 (A. Deller ed. 1958); Comment, *Implied Warranties in Patent, Know-How and Technical Assistance Licensing Agreements*, 56 CALIF. L. REV. 168 (1968).

150. *Sunnen v. Commissioner*, 161 F.2d 171, 175 (8th Cir. 1947), *rev'd on other grounds*, 333 U.S. 591 (1948); *Farmland Irrigation Co. v. Dopplmaier*, 48 Cal. 2d 208, 308 P.2d 732 (1957). See generally Annot., 66 A.L.R.2d 606 (1959).

151. *Specialties Development Corp. v. C-O-Two Fire Equip. Co.*, 207 F.2d 753, 755-56 (3d Cir. 1953), *cert. denied*, 347 U.S. 919 (1954).

152. *Price v. Block*, 124 F.2d 738 (7th Cir. 1941).

153. *E.g.*, *Klaxon Co. v. Stentor Elec. Mfg. Co.*, 313 U.S. 487 (1941); *Specialties Development Corp. v. C-O-Two Fire Equip. Co.*, 207 F.2d 753, 754 (3d Cir. 1953), *cert. denied*, 347 U.S. 919 (1954); *Autographic Register Co. v. Philip Hano Co.*, 198 F.2d 208 (1st Cir. 1952).

154. *Cf. Bowers Mfg. Co. v. All-Steel Equip., Inc.*, 275 F.2d 809 (9th Cir.), *cert. denied*, 363 U.S. 812 (1960) (state statute does not permit licensee to rescind since it provides merely a vehicle, rather than added substantive basis, for rescission).

155. *Reynolds Metals Co. v. Metals Disintegrating Co.*, 176 F.2d 90 (3d Cir. 1949); *Black v. Richfield Oil Corp.*, 146 F.2d 801 (9th Cir. 1944), *cert. denied*, 325 U.S. 867 (1945).

156. *Contour Chair-Lounge Co. v. Laskowitz*, 330 S.W.2d 817 (Mo.

2. Federal Law Incursions

The fact that state law is recognized as controlling on the wide range of ordinary contractual questions has not prevented the preemptive application of federal law on specific issues. By far the clearest recent example is found in the ruling that as a matter of federal patent law, and perhaps antitrust law as well, state courts may not apply state law to estop a licensee from challenging the validity of the licensed patent.¹⁵⁷ Closely parallel principles are embodied in the entire range of decisions prohibiting various license practices as misuse; these rulings rest on federal patent law, and often federal antitrust law as well, and clearly preclude state court enforcement of the unlawful license provisions.¹⁵⁸

Although equally clear pronouncements have not been found, it seems almost inevitable that federal common law principles will likewise be applied to patent licenses between the federal government and private parties, whether the government is licensor¹⁵⁹ or licensee.¹⁶⁰ There is no apparent reason

1959). *But cf.* Overman Cushion Tire Co. v. Goodyear Tire & Rubber Co., 59 F.2d 998 (2d Cir.), *cert. denied*, 287 U.S. 651 (1932).

157. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). *Compare* Scherr v. Difco Labs., 401 F.2d 443 (6th Cir. 1968) (leaving open the question whether federal or state law controls a claim of eviction by judicial declaration of invalidity of the licensed patent). In *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 334 F. Supp. 1269 (W.D. Tenn. 1971), the court concluded that federal policy requires refund of royalties paid by the licensee prior to judicial declaration of patent invalidity.

158. *E.g.*, *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964) (reversing a state court judgment for royalties due under a patent license on the ground that federal law prohibits a royalty arrangement found to extend the patent beyond its expiration).

A clear early statement that federal law controls misuse questions is found in the ill-starred decision in *Henry v. A. B. Dick Co.*, 224 U.S. 1, 17, 19 (1912). The substance of the misuse ruling was overruled in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 518 (1917). The often hybrid role of patent and antitrust principles is beautifully illustrated in *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173, 175-77 (1942). *See also* *MacGregor v. Westinghouse Elec. & Mfg. Co.*, 329 U.S. 402, 407 (1947).

Leading discussions of general misuse principles may be found in Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 YALE L.J. 267 (1966); Turner, *The Patent System and Competitive Policy*, 44 N.Y.U.L. REV. 450 (1969).

159. *See, e.g.*, 14 C.F.R. §§ 1245.200-209 (1971) (licensing procedures of the National Aeronautics and Space Administration). The current Statement of Government Patent Policy, Section 2, declares that under regulations prescribed by the Administrator of General Services, government-owned patents are to be made available through dedication or licensing on an exclusive or nonexclusive basis. *See* 36 Fed. Reg. 16887, 16891 (1971). Licenses issued under such regulations are not

to suppose that the general tendency to remove government contracts from the ambit of state law will be relaxed in this area.¹⁶¹

Compulsory licenses required by express federal statute likewise seem prime candidates for federal governance. The Atomic Energy Commission, for instance, is authorized by statute to declare that patents relating to atomic energy are affected with a public interest, and to require that they be licensed to others.¹⁶² Likewise, the Clean Air Amendments of 1970 contain almost incredibly complicated provisions authorizing a district court to order licensing of patents needed for compliance with the act.¹⁶³ It would be highly surprising, to say the least, to discover that licenses issued under such schemes were to be controlled by state law. Even licenses voluntarily issued against the pressure of this background might be regarded as appropriate subjects for federal control. Beyond such statutes and the not infrequent licensing provisions of federal antitrust decrees,¹⁶⁴ proposals have frequently been made for some more generalized mandatory licensing obligation.¹⁶⁵ Adoption of any such scheme would doubtless cause federal law to swallow up state law completely.

likely to be subject to state regulation, whatever is made of the prior situation. (A brief review of some of the literature on government patent practices is Raskin, *Government Patent Policy Revisited: Reflections Occasioned by President's 1971 Memorandum*, 15 *IDEA* 340 (1971).)

160. See, e.g., *AMP Inc. v. United States*, 389 F.2d 448 (Ct. Cl.), cert. denied, 391 U.S. 964 (1968).

161. E.g., *United States v. Seckinger*, 397 U.S. 203, 209-10 (1970); *Priebe & Sons v. United States*, 332 U.S. 407, 411, 414 (1947); *Clearfield Trust Co. v. United States*, 318 U.S. 363 (1943).

162. 42 U.S.C. § 2183 (1970). See 10 C.F.R. Part 81 (1971); Note, *Compulsory Licensing of Patents Under the Atomic Energy Act of 1954*, 43 *GEO. L.J.* 221 (1955); Note, *The Constitutionality of the Patent Provisions of the 1954 Atomic Energy Act*, 22 *U. CHI. L. REV.* 920 (1955).

163. 42 U.S.C. § 1857 (1971). See Schwartz, *Mandatory Patent Licensing of Air Pollution Control Technology*, 57 *VA. L. REV.* 719 (1971).

164. See Massel, *The Patent System and Economic Development*, 46 *N.Y.U.L. REV.* 486, 499 n.54 (1971).

165. See Massel, *supra* note 164, at 488-89, 499; Turner, *The Patent System and Competitive Policy*, 44 *N.Y.U.L. REV.* 450, 456, 474-76 (1969); Note, *Compulsory Licensing of Patents*, 6 *GEO. WASH. L. REV.* 499 (1938); *Report of the White House Task Force on Antitrust Policy* [Neal Report] (July 5, 1968), in 1 *J. REPRINTS ANTITRUST L. & ECON.* 633, 697-700, 779-94 (1969). The newly revised Statement of Government Patent Policy includes provisions for requiring government contractors to issue licenses under patents which they have been allowed to retain. See 36 *Fed. Reg.* 16887, 16891 (1971).

It is generally accepted that a patentee has no obligation to license

Apart from such full-license regulation, federal statutes have also occasionally been adopted to control some specific aspect of patent licensing. The Royalty Adjustment Act of World War II, for instance, provided machinery for reducing the royalties paid by government contractors under patent licenses.¹⁶⁶ And the Patent Code presently provides that any agreement settling an interference proceeding in the Patent Office shall be filed with the Patent Office under sanction of permanent unenforceability.¹⁶⁷

The foregoing illustrations have represented direct federal regulation of relationships which can easily be classified with traditional license arrangements. Two final illustrations remain, providing by their very ambiguity a suggestion of the lines along which the role of federal law could very easily be expanded further.

First, and more general, are cases dealing with "implied" licenses. Some of these cases involve situations resting on ordinary contract principles and are of no particular importance. Others, however, rest on findings in infringement litigation that the conduct of the patent owner with respect to the infringer is of such a character that it would be inequitable to

his patent. *E.g.*, *La Salle Street Press, Inc. v. McCormick & Henderson, Inc.*, 445 F.2d 84, 94-96 (7th Cir. 1971); *Sylvania Ind. Corp. v. Visking Corp.*, 132 F.2d 947, 958 (4th Cir.), *pet. for cert. dismissed*, 319 U.S. 777 (1943). Nonetheless, it is reported that the Department of Justice has exerted pressure on patent owners to grant additional licenses, apparently where some licenses have already been issued. See 117 CONG. REC. S. 3404, 3409 (March 19, 1971) (memorandum of the American Patent Law Association). One court, without citation of authority, has concluded that once a patent owner has issued a license, it must issue licenses on nondiscriminatory terms to competitors of the licensee. *Allied Research Prods., Inc. v. Heatbath Corp.*, 300 F. Supp. 656 (N.D. Ill. 1969). See 161 U.S.P.Q. 527 for findings of fact.

166. Act of October 31, 1942, ch. 634, 56 Stat. 1013. Although the Act expired in 1953, it continued to produce litigation results at least through 1964. See *Lewis v. United States*, 338 F.2d 114 (Ct. Cl. 1964); *United States v. Frank B. Killian Co.*, 335 F.2d 57 (6th Cir. 1964). The statutory reference to "license" arrangements was interpreted broadly. See *Coffman v. United States*, 96 F. Supp. 927 (Ct. Cl. 1951).

167. 35 U.S.C. § 135(c). Patent Office practice has long allowed the recording of license agreements with the warning that such recording does not have any constructive notice effect for want of statutory foundation. See 37 C.F.R. § 1.331 (1971) (Rules of Practice in Patent Cases). The Neal Report recommended that, even apart from its compulsory licensing proposals, statutory provision should be made requiring the recording of all patent licenses with strong sanctions for non-filing. See *Report of the White House Task Force on Antitrust Policy* (July 5, 1968), in 1 J. REPRINTS ANTITRUST L. & ECON. 633, 699, 779-80, 784 (1969).

allow enforcement of the patent. Frequently such findings are expressly referred to "estoppel" principles. There is no indication that decisions of this class are thought to depend on state-law principles, whether of implied contract or estoppel; instead, the courts appear to be proceeding on concepts they believe to be part of federal infringement law.¹⁶⁸ Closely related approaches appear to be reflected in older cases dealing with such problems as the right of a purchaser from an exclusive grantee of patent rights in one territory to use or sell the product in the territory of another exclusive grantee,¹⁶⁹ or the right of a licensee-purchaser under an original patent term to continue to use the patented machine during an extension of the patent term.¹⁷⁰ The decisions are cast in terms defining the basic scope of the patent protection: the particular product has been found to have lost the protection by virtue of the sale.

If license problems were approached as problems of defining the scope of basic patent protection and of the power of the patentee to modify the original protection by consensual arrangements with others, it would be easily possible to reach the conclusion that all license matters are inherently matters of federal law. The alternate perspective suggested by the implied license cases may be an even easier basis for federalization: licenses are frequently characterized as simply a defense to an infringement claim,¹⁷¹ and the thought that federal law should control the extent to which defenses are available to federal claims hardly seems startling.

The second line of ambiguous illustration ties directly into the view that licenses should be treated simply as defenses to federal infringement claims. The Supreme Court has apparently treated the effects of a release of claims for past infringement

168. *E.g.*, *Kierulff v. Metropolitan Stevedore Co.*, 315 F.2d 839 (9th Cir. 1963); *Lukens Steel Co. v. American Locomotive Co.*, 197 F.2d 939 (2d Cir. 1952); *Baker-Cammack Hosiery Mills v. Davis Co.*, 181 F.2d 550 (4th Cir.), *cert. denied*, 340 U.S. 824 (1950).

169. *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895). The Court suggested that an express contractual limitation imposed by the original seller would be governed by state law; today the answer would almost surely be in favor of federal antitrust law.

170. *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539 (1852). *See also Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340 (1863).

171. A nice statement is that although licenses have been described as a mere waiver of the patentee's right to sue since they pass no interest in the patent, "a contract of license is and can be a most valuable and enforceable right." *U.S. Inds., Inc. v. Otis Engr'g Corp.*, 277 F.2d 282, 291 (5th Cir. 1960).

as a question of federal patent law.¹⁷² Judge Friendly has followed this lead to a conclusion that federal courts are not bound by state law in determining the incidents of a covenant not to sue for infringement,¹⁷³ although leaving open the question whether state law might be adopted voluntarily as federal law. License arrangements may be distinguished, of course, to the extent that they involve private attempts to order future conduct which arguably need to be integrated with the fabric of state law; presumably releases of claims for past activities are more easily treated simply as a matter of federal concern.¹⁷⁴ The distinction is nonetheless a refined one, and the principle of federal concern recognized in these cases could easily expand to embrace all license transactions.

Whatever these various examples of federal intrusion on licensing law presage, they at least demonstrate that licensing is not an exclusive preserve of state law. So far the admixture of federal law has been confined to the periphery; whether it should be spread further will be examined after review of the other major areas of consensual and nonconsensual patent transactions.

C. ASSIGNMENTS

1. *Federal Law*

In large measure, assignments are treated as contracts¹⁷⁵ whose enforcement is not a proper matter for federal jurisdiction.¹⁷⁶ Unlike licenses, however, assignments have a direct

172. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 500-02 (1964). See also *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 401 U.S. 321, 342-48 (1971).

173. *Artvale, Inc. v. Rugby Fabrics Corp.*, 363 F.2d 1002, 1006-07 (2d Cir. 1966).

174. The covenant not to sue in the *Artvale* case extended to conduct occurring in the future; to this extent it seems impossible to distinguish its effects from the effects of a paid up or royalty-free non-exclusive license, unless the poorly drafted agreement was thought to rest on a mutual understanding that the items covered by the covenant not to sue were not within the scope of the patent.

An interesting parallel illustration is provided by licenses entered after the licensee has been enjoined from infringing the patent. Such licenses have been held to suspend the force of the injunction. See *Holmes v. Atlas Garage Door Co.*, 63 F. Supp. 692, 694-95 (S.D. Cal. 1945). The impact of the license on federal infringement litigation is dramatically clear in such situations.

175. *E.g.*, *Nicholson Pavement Co. v. Jenkins*, 81 U.S. (14 Wall.) 452, 456 (1871).

176. *E.g.*, *Odell v. F. C. Farnsworth Co.*, 250 U.S. 501 (1919).

foundation in the Patent Code. Section 261 expressly provides that patents and applications for patent are "assignable in law by an instrument in writing." Provision is made for recording, acknowledgment, and territorially limited assignments for part of the United States.¹⁷⁷ Federal law clearly controls direct application of these statutory provisions. Questions closely related to the express statutory provisions are also apparently treated as matters of federal law, as when courts have been faced with a question of the need for formal "delivery" of a written assignment,¹⁷⁸ or of the authority of a state judicial officer to assign a patent in the process of executing a state judgment.¹⁷⁹

As with licenses, there are further areas in which assignment questions not directly related to statutory provisions are treated as matters of federal law. The clearest example is provided by the ruling that the patentee may not assign rights against a single infringer, accompanied by a statement that

Patent property is the creature of statute law and its incidents are equally so and depend upon the construction to be given to the statutes creating it and them, in view of the policy of Congress in their enactments.¹⁸⁰

So too, the limits on estoppel of an assignor to challenge a patent when sued for its infringement after the assignment have been clearly rested on federal law.¹⁸¹

2. State Law

Notwithstanding the expressly federal nature of some assignment questions, as in the examples just noted, state law continues to control a large range of essentially contractual assignment questions. One decision delightfully illustrating the proximity such questions may have to federal questions ruled

177. 35 U.S.C. § 261 (1970). The origins of the provision for assignments for part of the United States are traced in Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 YALE L.J. 267, 348-52 (1966). See also 35 U.S.C. §§ 118, 152, 154, 251 (1970) (other statutory references to the rights of assignees).

178. Etten v. Lovell Mfg. Co., 225 F.2d 844, 847 (3d Cir. 1955), cert. denied, 350 U.S. 966 (1956).

179. E.g., McClaskey v. Harbison-Walker Refractories Co., 138 F.2d 493 (3d Cir. 1943). Compare Platt & Munk Co. v. Republic Graphics, Inc., 315 F.2d 847, 853-54 (2d Cir. 1963) (dictum).

180. Crown Die & Tool Co. v. Nye Tool & Mach. Works, 261 U.S. 24, 40 (1923).

181. Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249, 254-57 (1945).

in line with ample authority that assignments might be enforced as a matter of state law even though the formal requirements of the federal statute had not been satisfied.¹⁸² Like the license litany, additional cases may be cited which refer to state law such matters as general rules of construction,¹⁸³ capacity to assign,¹⁸⁴ fraudulent procurement of the assignment,¹⁸⁵ the obligations of employees to assign inventions to their employers,¹⁸⁶ failure of consideration,¹⁸⁷ the parol evidence rule,¹⁸⁸ statutes of limitations,¹⁸⁹ and breach of express warranty.¹⁹⁰ One court has even apparently looked to state law to determine whether assignment of the merely expectant sort of interest represented by a patent application is valid.¹⁹¹

It hardly needs noting that state law may easily refer assignment contract questions back to federal law. A common example is provided by employee contracts to assign inventions, which are frequently interpreted to provide for assignment only of patentable inventions.¹⁹²

182. *Toner v. Sobelman*, 86 F. Supp. 369, 377 (E.D. Pa. 1949).

183. *Geograph Co. v. Cities Serv. Oil Co.*, 251 F.2d 261, 262 n.1 (10th Cir. 1958); *Lang v. Patent Tile Co.*, 216 F.2d 254, 255 (5th Cir. 1954).

184. *Waterman v. Mackenzie*, 138 U.S. 252, 257 (1891); *Laning v. National Ribbon & Carbon Paper Mfg. Co.*, 125 F.2d 565 (7th Cir. 1942) (capacity of dissolved corporation to assign); R. ELLIS, *PATENT ASSIGNMENTS* §§ 10, 11 (3d ed. 1955).

185. *E.g.*, *Wade v. Lawder*, 165 U.S. 624 (1897); *Chicago Fittings Corp. v. Howe*, 309 F. Supp. 625 (N.D. Ill. 1970). *Cf.* *Page v. Dickerson*, 28 Wis. 694 (1871).

186. *E.g.*, *Jamesbury Corp. v. Worcester Valve Co.*, 443 F.2d 205, 207 n.1 (1st Cir. 1971); *Dill Mfg. Co. v. Goff*, 125 F.2d 676 (6th Cir.), *cert. denied*, 317 U.S. 672 (1942); *Aloe Creme Labs. v. Farkas*, 145 U.S.P.Q. 649 (S.D. Fla. 1965); *Standard Brands Inc. v. U.S. Partition & Packaging Corp.*, 199 F. Supp. 161, 176-77 (E.D. Wis. 1961); *Hartley Pen Co. v. Lindy Pen Co.*, 16 F.R.D. 141, 149 (S.D. Cal. 1954), *aff'd*, 237 F.2d 294 (9th Cir. 1956).

187. *Chicago Fittings Corp. v. Howe*, 309 F. Supp. 625 (N.D. Ill. 1970).

188. *Ortman v. Stanray Corp.*, 437 F.2d 231 (7th Cir. 1971); *Toner v. Sobelman*, 86 F. Supp. 369 (E.D. Pa. 1949).

189. *Hartley Pen Co. v. Lindy Pen Co.*, 16 F.R.D. 141 (S.D. Cal. 1954), *aff'd*, 237 F.2d 294 (9th Cir. 1956).

190. *Gate-Way, Inc. v. Hillgren*, 82 F. Supp. 546, 551 (S.D. Cal. 1949), *aff'd per curiam*, 181 F.2d 1010 (9th Cir. 1950).

191. *National Athletic Supply Corp. v. Muscle-Matic, Inc.*, 164 U.S.P.Q. 10, 15-16 (M.D. Fla. 1968), *aff'd on other grounds*, 421 F.2d 407 (5th Cir. 1970). Since the court quotes the statutory provisions allowing assignment of an application for patent, the subsequent reference to state law is at the least obscure.

192. *E.g.*, *Jamesbury Corp. v. Worcester Valve Co.*, 443 F.2d 205 (1st Cir. 1971). See note 186 *supra*.

3. *The Distinction Between License and Assignment*

Paradoxically, the fact that state law controls many questions of both assignment and license enforcement has not prevented application of controlling federal principles to determine for some purposes the characteristics which distinguish licenses from assignments.¹⁹³ The most important context in which the distinction is made involves standing to sue a third party for infringement.¹⁹⁴ An assignee may sue; a mere licensee may not; and an exclusive licensee may sue only if the licensor is joined.¹⁹⁵ The label used by the parties to describe their arrangement does not control the characterization of the agreement.¹⁹⁶ It hardly seems surprising that federal courts should wish to determine for themselves the principles of standing for infringement plaintiffs nor do such decisions intrude significantly on the domain of state law. Nonetheless, the very clarity of the reasons underlying federal control provides one further demonstration of the proximity of contractual patent transactions to important federal policies.

Federal tax laws provide a more remote illustration of the tendency of courts to resort to federal law to measure the differences between assignment and license transactions. Since there is no important connection to patent policies as such, this area may be left to marginal citation.¹⁹⁷

The mixture of state and federal law, in short, is somewhat more federalized for assignments than it is for licenses. The vital point in both cases, however, is that in a wide variety of situations reasons have been found in patent policy to overcome the basic supposition that state law controls.

193. It was once fashionable to refer to an assignment of all patent rights for a defined territory as a "grant." This usage has virtually disappeared. See R. ELLIS, *PATENT ASSIGNMENTS* 68 (3d ed. 1955).

194. The patent, indeed, grants the right to exclude others from practicing the invention to the patentee, his heirs, "or assigns." 35 U.S.C. § 154 (1970).

195. Interesting contemporary illustrations of these principles may be found in *Grantham v. McGraw-Edison Co.*, 444 F.2d 210 (7th Cir. 1971); *Agrashell, Inc. v. Hammons Prods. Co.*, 352 F.2d 443 (8th Cir. 1965); *Consolidated Vacuum Corp. v. Machine Dynamics, Inc.*, 230 F. Supp. 70 (S.D. Cal. 1964). See also *Pope Mfg. Co. v. Gormully & Jeffery Mfg. Co.* (No. 3), 144 U.S. 248 (1892).

196. *Waterman v. Mackenzie*, 138 U.S. 252 (1891).

197. *E.g.*, *Bell Intercontinental Corp. v. United States*, 381 F.2d 1004 (Ct. Cl. 1967); *Kronner v. United States*, 110 F. Supp. 730 (Ct. Cl. 1953).

D. CO-OWNER AGREEMENTS

1. *General Incidents of Co-Ownership*

Co-ownership of patents arises, ordinarily, because the patented invention is the work of two or more inventors. In such circumstances it is required that all co-inventors be named in the application, and the patent issues to all jointly unless there is a prior assignment of interests.¹⁹⁸ Alternatively, co-ownership may arise because of assignment of a fractional interest in the patent;¹⁹⁹ the incidents of co-ownership, however, are such as to make this course generally unattractive.

The basic statutory statement of the rights of co-owners is that "[i]n the absence of any agreement to the contrary, each of the joint owners of a patent may make, use or sell the patented invention without the consent of and without accounting to the other owners."²⁰⁰ These rights extend to licensing others, in competition with the co-owners if events happen that way, without any obligation to share the royalties.²⁰¹ Suits for infringement, on the other hand, must be prosecuted by all co-owners; and it seems to be accepted that although one co-owner may license others, one may not effectively release the claims of the remaining co-owners for past infringement.²⁰²

The precarious nature of co-ownership should be apparent from this brief recital of its general incidents. Each co-owner is at the mercy of the other. Presumably vindictive destruction of the joint property by free licensing of all takers would be a rare event. Differential ability to exploit the invention, however, whether because of ability to practice it directly or because of superior ability to entice others into licenses, may restrict the value of the weaker co-owner's interest considerably.²⁰³ And if effective exploitation requires an ex-

198. 35 U.S.C. § 116 (1970). Some of the more elaborate complications are sketched in *Iowa State University Research Foundation, Inc. v. Sperry Rand Corp.*, 444 F.2d 406 (4th Cir. 1971). See also *Turchan v. Bailey Meter Co.*, 19 F.R.D. 201 (D. Del. 1956).

199. 35 U.S.C. § 261 (1970).

200. 35 U.S.C. § 262 (1970).

201. *E.g.*, A. SEIDEL, *WHAT THE GENERAL PRACTITIONER SHOULD KNOW ABOUT PATENT LAW AND PRACTICE* 88 (1966). See *Ragan v. Sirigo*, 160 Cal. App. 2d 832, 326 P.2d 26 (1958).

202. See *Union Trust Nat'l Bank v. Audio Devices, Inc.*, 295 F. Supp. 25 (S.D.N.Y. 1969). Cf. *Milgram v. Jiffy Equip. Co.*, 362 Mo. 1194, 1200-01, 247 S.W.2d 668, 672-73 (1952).

203. *Milgram v. Jiffy Equip. Co.*, 362 Mo. 1194, 247 S.W.2d 668 (1952) provides a graphic example of the difficulties which may result

clusive license, nothing can be done unless all joint owners join in the agreement.

2. Co-Owner Agreements

Patent experts are in clear agreement that the ordinary incidents of co-ownership just sketched require that co-owners of patents join in agreements among themselves to modify the relationships otherwise prescribed by law.²⁰⁴ The current statutory definition of the rights of joint owners, indeed, is conditioned on "the absence of any agreement to the contrary."²⁰⁵ The basic attempt, of course, is to substitute some form of cooperative exploitation for the risks of competitive exploitation built into the joint ownership.

Federal law might be thought to have an important role to play in limiting co-owner agreements. There is an express statutory recognition of such arrangements. Practical necessity is commonly thought to compel private arrangements to undo the incidents of ownership mandated by operation of federal law. Surprisingly, however, the only clear ruling on the subject is that co-owner agreements are controlled by state law.²⁰⁶ Although the definition of co-owner rights was added to the Patent Code in 1952,²⁰⁷ long after this ruling, there is little reason to seize on the new and oblique statutory reference to co-owner agreements as providing in itself a basis for superseding state law. Co-owner agreements may be cast not only in the form of a direct contract regulating the rights of the joint owners, but may also be cast in the form of license arrangements between them²⁰⁸ or in some combination of mutual assignments or licenses which include the conditions regulating the rights of the parties.²⁰⁹ Unless all forms of co-owner agree-

even when the co-owners have attempted to regulate their affairs by agreement.

204. *E.g.*, A. SEIDEL, WHAT THE GENERAL PRACTITIONER SHOULD KNOW ABOUT PATENT LAW AND PRACTICE 88 (1966); Turner, *Joint Ownership of Patents is Dynamite*, 42 LOS ANGELES BAR BULL. 115 (1967). Some would substitute the conclusion that title to a patent should never be placed in two or more people. *E.g.*, Cheever, *The Rights of Joint Owners of a Patent*, 2 MICH. L. REV. 446 (1904).

205. 35 U.S.C. § 262 (1970).

206. *Felix v. Scharnweber*, 125 U.S. 54 (1888).

207. 35 U.S.C.A. § 262 (1970) (reviser's note).

208. *E.g.*, *Rail-Trailer Co. v. ACF Inds., Inc.*, 358 F.2d 15 (7th Cir. 1966).

209. *E.g.*, *Rawlings v. National Molasses Co.*, 394 F.2d 645 (9th Cir. 1968). It has been suggested that co-owner agreements are so im-

ments are to be federalized, there is little sense in dividing controlling authority according to the form the agreement happens to assume. And federalization of this particular category of license or assignment agreements without going further into other categories may seem to be drawing exceedingly fine lines.

State law may actually play as legitimate a role in this area as in the area of ordinary license and assignment agreements. Impractical as the basic relations between co-owners may seem in many circumstances, it is clear that federal law must provide a basic framework which facilitates exploitation of the patent during its life. Paralysis is avoided by the general incidents of co-ownership; but if co-owners may cooperate at least to the extent of substituting some other incidents, there may be no strong intrusion on basic federal policy. So, for instance, if co-owners wish to enter into a transaction which simply suspends the rule that all must join in suit for infringement but otherwise leaves their relationship entirely unchanged, it is difficult to find an affirmative federal interest which is thwarted.²¹⁰

As with license and assignment agreements, there is the possibility of peripheral federal control of some particular terms. So far, the only rulings are negative: it is neither patent misuse nor an antitrust violation for co-owners to enter into arrangements which subject exploitation of the patent to joint or even single control.²¹¹ There seems little reason to suppose that co-owner agreements are peculiarly exempt from federal control, however, and the basic mixture of state and federal law

portant that they should ordinarily be cast in the form of reciprocal assignments so that they may be recorded and gain the effect of constructive notice to nonparties. R. ELLIS, *PATENT ASSIGNMENTS* §§ 405, 406 (3d ed. 1955). Absent recording, nonparties dealing with a single co-owner are not bound by restrictions placed on his rights to deal with the patent by agreement with another co-owner. See *Talbot v. Quaker State Oil Ref. Co.*, 104 F.2d 967 (3d Cir. 1939).

210. *Rawlings v. National Molasses Co.*, 394 F.2d 645 (9th Cir. 1968), approved an arrangement under which the co-owner who did not wish to be a party to the infringement litigation assigned its interest to the other co-owner and took back an unlimited, royalty-free, non-exclusive and noncancellable right to make, use and sell the products, and to sublicense others to do so. Since the question is one of parties to infringement litigation, it seems likely that federal law would control this particular question, just as with the distinction between assignments and licenses for such purposes. See Part II(C)(3) *supra*.

211. *Rail-Trailer Co. v. ACF Inds., Inc.*, 358 F.2d 15 (7th Cir. 1966); *Malco Mfg. Co. v. National Connector Corp.*, 151 U.S.P.Q. 255 (D. Minn. 1966), *rev'd on other grounds*, 392 F.2d 766 (8th Cir.), *cert. denied*, 393 U.S. 928 (1968).

is apt to be simply a third variation on the basic license and assignment theme.

E. AGREEMENTS NOT TO INFRINGE

Formal contractual agreements not to infringe a patent are not uncommon, occurring most frequently as a means of settling actual or threatened infringement litigation.²¹² Although the issue has not been addressed recently, it seems to be assumed that such agreements are subject to state law.²¹³ Enforcement has been granted in some cases without regard to the validity of the patent involved,²¹⁴ although invalidity may be accepted as a ground for reducing the measure of damages.²¹⁵ If patent validity were indeed irrelevant to the enforceability of such agreements, the problems involved might be simply a converse illustration of the problems raised by license agreements. The probability that federal law requires nonenforcement whenever the patent is invalid or not infringed, however, suggests that there is simply no room for state law at all.

Agreements not to infringe may be justified most readily on the ground that they provide a private means of accomplishing the same relief as a successful suit for an injunction against infringement. In ordinary contexts, such avoidance of public determination of a private quarrel by means of mutually acceptable agreement would seem highly desirable. But the basis on which the Supreme Court has overruled licensee estoppel is that a mutually desired private agreement may not be allowed

212. *E.g.*, R. NORDHAUS, *PATENT LICENSE AGREEMENTS* 229 (1967). See also Hilton, *Federal and State Court Competency To Adjudicate Cases Involving Patent Rights*, 36 CONN. B.J. 281, 287 (1962). In *Schwinn Bicycle Co. v. Goodyear Tire & Rubber Co.*, 444 F.2d 295 (9th Cir. 1970), it is duly reported that the patentee had charged some 25 other parties with infringement of its design patent and had secured agreements not to infringe from approximately 20 of them. (The rest were licensed.) The court's affirmance of a summary judgment of patent invalidity may offer some indication that such agreements are not difficult to secure even with patents of dubious validity.

213. *United Lens Corp. v. Doray Lamp Co.*, 93 F.2d 969 (7th Cir. 1937); *Coty, Inc. v. Bourjois, Inc.*, 109 F. Supp. 431 (S.D.N.Y. 1952).

214. *E.g.*, *United Lens Corp. v. Doray Lamp Co.*, 93 F.2d 969, 973 (7th Cir. 1937); *Battelle Development Corp. v. Angevine-Funke, Inc.*, 165 U.S.P.Q. 776 (Ohio Comm. Pl. 1970).

215. *Eno v. Prime Mfg. Co.*, 314 Mass. 686, 50 N.E.2d 401 (1943). It seems probable that infringement will ordinarily be insisted upon as an element of violation, *Texsteam Corp. v. Blanchard*, 352 F.2d 983 (5th Cir. 1965), *cert. denied*, 387 U.S. 936 (1967), although it is not inconceivable that a court might conclude that the parties had agreed that a particular product was an infringement.

to stand in the way of the vital public interest in securing a judicial review of patent validity at the behest of anyone so far interested as to be practicing the patented invention or something akin to it.²¹⁶ At a minimum, this reasoning must carry with it the conclusion that a suit for violation of an agreement not to infringe may be defended on grounds of invalidity as well as noninfringement.²¹⁷ Once the issues of invalidity and noninfringement are injected, however, there is very little left to be accomplished by the agreement not to infringe. Even a stipulation of liquidated damages would almost certainly have to be qualified on the ground that recognizing it as anything more than evidence of a reasonable royalty would allow private sanctions to unduly discourage subsequent infringing conduct and challenge to the patent.

Once the role of agreements not to infringe is restricted as suggested above, the only real function served by such agreements would be to allow infringement litigation to be transferred to state jurisdiction by private agreement. So long as federal infringement jurisdiction remains exclusive, this result is nonsensical. As a matter of federal law, such agreements should be ruled void.²¹⁸

This conclusion raises a difficult question as to the role of state law in enforcing license restrictions as a breach of contract. If naked agreements not to infringe are preempted, there is no ready answer to the proposition that state law likewise should be barred from enforcing a license agreement to confine practice of the patented invention to a certain product, period of time, or the like. In the past, state courts have indeed implied agreements not to infringe following the termination

216. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

217. The court went almost this far in *Massillon-Cleveland-Akron Sign Co. v. Golden State Ad. Co.*, 444 F.2d 425 (9th Cir. 1971). The primary focus was on the question whether invalidity may be raised by a party charged with inducing breach of an agreement not to infringe; the conclusion, however, is expressed that "a valid patent is a prerequisite to recovery for inducing the breach of a contract not to infringe, as well as a prerequisite to recovery for the breach itself." 444 F.2d at 428.

218. Parallel problems are raised by agreements not to practice unpatented "inventions." To the extent that legitimate trade secrets are involved, the role of state law is at least temporarily secure. *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971). Apart from such situations, it is difficult to imagine that state law will be allowed any significant room outside of the areas in which agreements not to compete at all have been allowed as incidents of employment or contracts for the sale of a business.

of a license,²¹⁹ or not to infringe by making products other than those covered by a limited license.²²⁰ One possible distinction is that the license agreement accomplishes a positive permission to practice the invention, and that so long as federal law does not prohibit every possible form of restriction on the licensee, state law may enforce the restrictions just as readily as it may enforce the positive obligations undertaken by the licensee. Perhaps this distinction is sufficient. Its strength, however, depends on the strength of the overall case for allowing state law to continue its traditional role in governing license transactions. The fact that it is again almost certain that state law must allow defenses of invalidity and noninfringement simply adds one more arrow to the quiver of questions about the present role of state license law.

F. OWNERSHIP

Federal law provides the basic condition of patent ownership that patent protection must rest on the right of the inventor or all co-inventors.²²¹ Disposition of the inventor's right is a matter of assignment, subject to the blend of state and federal law pictured above.²²² Beyond these fundamentals, however, the statute specifically provides that "patents shall have the attributes of personal property."²²³ It is generally accepted that state law governs such matters as devolution of patents on death,²²⁴ the fiduciary obligations of corporate officers and employees to account for their own inventions or transactions in the inventions of others,²²⁵ and even application of community property concepts.²²⁶

219. *E.g.*, *Eno v. Prime Mfg. Co.*, 314 Mass. 686, 50 N.E.2d 401 (1943). *Contra*, *Measurements Corp. v. Ferris Instrument Corp.*, 159 F.2d 590 (3d Cir. 1947). The view that there is no basis for implying an agreement which creates rights greater than would exist under patent law seems preferable.

220. *E.g.*, *Shaw v. E. I. du Pont de Nemours & Co.*, 126 Vt. 206, 226 A.2d 903 (1967).

221. 35 U.S.C. §§ 102(f), 116 (1970).

222. *See* Part II(C) *supra*.

223. 35 U.S.C. § 261 (1970).

224. *See* W. NAVIN, *PATENTS* 38-40 (rev. ed. 1966). *See also* Price v. Block, 124 F.2d 738 (7th Cir. 1941); A. K. BERLE & L. DECAMP, *INVENTIONS, PATENTS, AND THEIR MANAGEMENT* 357-58 (1959).

225. *E.g.*, *Grip Nut Co. v. Sharp*, 150 F.2d 192 (7th Cir.), *cert. denied*, 326 U.S. 742 (1945); *L. A. Young Spring & Wire Corp. v. Falls*, 307 Mich. 69, 11 N.W.2d 329 (1943).

226. Patent authorities widely assume the application of community property law. *E.g.*, W. NAVIN, *PATENTS* 40 (rev. ed. 1966); A. SMITH,

Integration of such incidents of ownership as these with the general fabric of state law is clearly sound. Litigation involving such matters is seldom apt to include questions of patent validity or interpretation. State law is not likely to intrude requirements which seriously detract from the purpose of the patent laws to encourage discovery and innovative commercial exploitation of discovered inventions.²²⁷ Property questions have traditionally been left to state regulation, and it has long been recognized that there is a particularly high interest in preserving the role of state law in regulating intrafamily property relationships.²²⁸ No matter what conclusions are reached with respect to express contractual transactions affecting patent rights, the role of state law seems secure in this core area of property interests and will not be discussed further.

Before turning to the final categories of miscellaneous applications of state law and direct state regulation of patent transactions, however, express note must be made of one peculiar problem of ownership which has repeatedly caused difficulty. Ownership of an invention arises under state law until the picture is complicated by invocation of the patent laws.²²⁹ Misappropriation of an as yet unpatented invention, however, may be followed by issuance of a patent to the one who wrongfully secured the invention. Such patents are void as a matter of federal law;²³⁰ at most, federal jurisdiction in cases growing out of this sequence of events is limited to a declaration of the invalidity of the resulting patent.²³¹ State courts, however, have

PATENT LAW 1125 (rev. ed. 1964); Turner, *Joint Ownership of Patents is Dynamite*, 42 LOS ANGELES BAR BULL. 115 (1967). Cf. M. NIMMER, COPYRIGHT § 80 (1963). Cases supporting this assumption are difficult to find, although ambiguous support may be found in *Finnegan v. Finnegan*, 64 Cal. App. 2d 109, 148 P.2d 37 (Dist. Ct. App. 1944); *Lorraine v. Lorraine*, 8 Cal. App. 2d 687, 701-02, 48 P.2d 48, 54-55 (Dist. Ct. App. 1935).

227. The embarrassments of co-ownership, sketched in Part II (D), *supra*, might be thought to suggest that application of state community property law to patents would seriously interfere with effective commercial exploitation. The lack of any indication of outrage with the present situation suggests that in fact such difficulties have not resulted, perhaps because of the powers of one spouse as manager of the community.

228. Cf. *De Sylva v. Ballentine*, 351 U.S. 570 (1956).

229. *Becher v. Contoure Labs., Inc.*, 279 U.S. 388, 391 (1929). Cf. *LaChapelle v. United Shoe Mach. Corp.*, 272 Mass. 465, 172 N.E. 586 (1930).

230. *Kennedy v. Hazelton*, 128 U.S. 667 (1888).

231. Federal jurisdiction was accepted in *Cummings v. Moore*, 202 F.2d 145 (10th Cir. 1953), as seems clearly right. Nonetheless, juris-

frequently been faced with suits brought by the inventor to compel assignment of the patent. Federal courts have consistently ruled that assignment is inappropriate since the only purpose of ordering an assignment would be to facilitate an imposition on the public by assertion of an invalid patent.²³² Assignment has been ordered in varying circumstances by state courts, however,²³³ apparently in response to the obvious appeal of the true inventor's claims.

The strongest argument to be made for allowing state courts to go their own way is that the misappropriation and issuance of a patent have made it impossible for the true inventor to maintain effective trade secret protection for his idea. His failure to seek a patent himself, accordingly, does not justify a conclusion that he has opted to forego all protection. Since the patent's issuance carries a statutory presumption that the invention is indeed patentable,²³⁴ the inventor should be allowed the benefit of this protection instead of an often unsatisfactory

diction in such situations has frequently been refused. See *Muskegon Piston Ring Co. v. Olson*, 307 F.2d 85 (6th Cir. 1962), *cert. denied*, 371 U.S. 952 (1963) (the decision may be right on the unexpressed ground that priority should be ceded to pending Patent Office proceedings); *Eckert v. Braun*, 155 F.2d 517 (7th Cir. 1946); *Howard v. Archer*, 115 F.2d 342 (9th Cir. 1940).

232. See *Friedman v. Washburn Co.*, 145 F.2d 715 (7th Cir. 1944); *Koehring Co. v. National Automatic Tool Co.*, 257 F. Supp. 282, 289 (S.D. Ind. 1966), *aff'd per curiam*, 385 F.2d 414 (7th Cir. 1967); *Tracerlab, Inc. v. Industrial Nucleonics Corp.*, 204 F. Supp. 101 (D. Mass. 1962), *rev'd on other grounds*, 313 F.2d 97 (1st Cir. 1963); *Crook v. Bendix Aviation Corp.*, 68 F. Supp. 449 (D. Del. 1946).

Colgate-Palmolive Co. v. Carter Prods., Inc., 230 F.2d 855 (4th Cir.), *cert. denied*, 352 U.S. 843 (1956), does not seem inconsistent with this approach. The basis for ordering assignment of pending patent applications was that the inventor had made the inventions while employed by the plaintiff, rather than that application had been made on behalf of someone other than the inventor.

233. *E.g.*, *Transparent Ruler Co. v. C-Thru Ruler Co.*, 129 Conn. 369, 28 A.2d 232 (1942) [honored in *Zachs v. Aronson*, 49 F. Supp. 696 (D. Conn. 1943)]; *Cohen v. Bunin*, 183 Misc. 90, 47 N.Y.S.2d 414 (Sup. Ct. 1944), *aff'd per curiam*, 270 App. Div. 929, 62 N.Y.S.2d 870 (1946), *cert. denied*, 332 U.S. 792 (1947). Assignment appears to be contemplated as an appropriate remedy in *Zemba v. Rodgers*, 87 N.J. Super. 518, 210 A.2d 95 (Ch. Div. 1965).

As long ago as *Slemmer's Appeal*, 58 Pa. St. 155 (1868), a court faced with this dilemma concluded that it should not order assignment of a fractional interest in a patent to a co-inventor since a decision resting on a finding of co-invention would carry with it a conclusion of patent invalidity. This dilemma was adroitly evaded by confining relief to issuance of a license—just why this distinction in relief was thought to warrant a difference in the court's power is not explained.

234. 35 U.S.C. § 282 (1970).

remedy against the wrongdoer alone. This argument, however, is simply that the patent should not be held invalid in such circumstances. Unless the federal courts can be persuaded as a matter of patent law that this is so, state courts should refrain from ordering assignment.

G. MISCELLANEOUS APPLICATIONS OF STATE LAW

Remaining applications of state law involve a wide variety of problems, some of them susceptible of easy disposition and some of them more complicated. Ordinary sale transactions, for instance, may commonly involve a warranty by the seller that the goods do not infringe patents owned by others, or a buyer furnishing specifications may warrant that the seller will not be guilty of such infringement in complying with the buyer's order.²³⁵ Such warranties are closely bound up with the other incidents of a transaction otherwise governed by state law and seem to provide a relatively easy case for continued application of state law.²³⁶ A tort claim for deceit in the sale of patent rights, on the other hand, seems indistinguishable from other claims arising out of assignment contracts; the continuing role of state law²³⁷ may thus easily be referred to the general problems of assignment agreements.

Complex problems are immediately encountered, however, when attention shifts to the use of state law to control claims of interference with relationships between a patentee and present or prospective licensees. One current example is provided by a claim that a stranger had interfered with the plaintiff's exclusive license by inducing the licensor to grant "permission" for sale of the patented product;²³⁸ another is seen in claims that a stranger is intruding on relationships between the licensor and present or future licensees by assertions that the licensees may engage in described conduct without owing royalties and that the potential licensees may do so without infringement.²³⁹ In each of these cases there are alternative routes through infringement law, either by a claim of infringement or by a claim of inducing infringement. At the same time it is

235. UNIFORM COMMERCIAL CODE § 2-312(3).

236. See *Pratt v. Paris Gas Light & Coke Co.*, 168 U.S. 255 (1897).

237. E.g., *David v. Park*, 103 Mass. 501 (1870).

238. *American Harley Corp. v. Irvin Inds.*, 27 N.Y.2d 168, 263 N.E.2d 552, 315 N.Y.S.2d 129 (1970), *cert. denied*, 401 U.S. 976 (1971).

239. *Koratron Co. v. Deering Milliken, Inc.*, 418 F.2d 1314 (9th Cir. 1969), *cert. denied*, 398 U.S. 909 (1970).

easily possible to imagine similar situations in which no infringement claim is available. A nonexclusive licensee, for instance, might allege wrongful inducement of license termination; a licensor might allege interference in circumstances where no infringing activity has resulted, and so on.

If, as proposed below, federal law should come to control the underlying contractual transactions, the case for a concomitant preemption of state law as to interference with such transactions seems obvious. But so long as state law continues to control licensing and assignment, the appropriate role of state law is more obscure. In cases where actual infringement results, there is a compelling argument that there should be no state remedy. If federal law allows an action for inducing infringement, the policy of exclusive federal jurisdiction should prevent resort to state jurisdiction by the simple means of changing the applicable label; and if federal law for some reason protects the defendant against liability for inducing infringement, there is an implicit judgment of patent policy that the acts of the defendant must be protected to further the public interest in all means of competition wherever possible. Where infringement does not result, on the other hand, there seems to be little reason to create a distinctive federal law to control interference with actual or prospective contractual relationships governed by state law. Instead, the role of federal law is again peripheral. The clear federal policy in favor of encouraging challenges to patent validity must require states to deny liability unless the patent can be proved valid; even then the states must recognize a privilege for reasonable claims, made in good faith, that specified conduct may be undertaken without violating the patent laws.²⁴⁰

The other frequently encountered area in which application of state law gives rise to a complex interplay between state and federal law involves suits for disparagement arising out of assertions that the plaintiff's products infringe a patent. It has long been accepted that such claims arise out of state law.²⁴¹ Just as with claims of interference with patent

240. See Chisum, *The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*, 46 WASH. L. REV. 633, 655-56 (1971).

Of course this dichotomy may well get state courts even more deeply ensnared with questions of patent validity and infringement. This consequence, however, is but one small facet of the general results of applying state law to the underlying contracts.

241. *American Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257 (1916); *Utah Radio Prods. Co. v. Boudette*, 78 F.2d 793 (1st Cir. 1935);

contract relationships, however, it seems inescapable that federal law must impose some controlling limits. If a stranger has a privilege conferred by federal law to make reasonable, good-faith assertions of noninfringement, federal law should at least control the determination whether a patentee is protected against liability in making reasonable, good-faith assertions of infringement.²⁴²

Beyond this point, it is more difficult to determine whether state law should be left free to control, even to the extent of denying any claim for relief whatever. The federal interest in ensuring the existence of some damages remedy for such abuse of patents is very strong. Declaratory relief of noninfringement cannot by itself undo the damage caused by past assertions of infringement; it is well known that assertions of infringement aimed at a competitor's customers provide a highly effective method of ending competition. Federal antitrust remedies replete with treble damages, criminal liability, and esoteric theoretical problems, are likewise insufficient to substitute for a simple tort remedy. Nor is there any equivalent to the claim of inducing infringement available to the patentee injured by acts of a stranger. There is thus strong ground for concluding that federal patent policy requires the existence of a tort remedy for this category of patent abuse. If this conclusion is sound, there is no apparent reason to adhere to the doctrine that state law creates the cause of action. Federal control seems appropri-

Dynamic Instrument Corp. v. Fedtro, Inc., 266 F. Supp. 848 (E.D.N.Y. 1967).

242. See Chisum, *The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*, 46 WASH. L. REV. 633, 649 n.7 (1971).

Compare *Ostow & Jacobs, Inc. v. Morgan-Jones, Inc.*, 180 F. Supp. 38, 41 (S.D.N.Y. 1959), *rehearing denied*, 189 F. Supp. 697 (S.D.N.Y. 1960). The court concluded that state law would require the plaintiff to prove invalidity or noninfringement of the patent, notwithstanding the assumption of Mr. Justice Holmes in *American Well Works v. Layne & Bowler Co.*, 241 U.S. 257 (1916), that the plaintiff need prove only charges of infringement and subsequent damage to its business. Although this conclusion seems eminently sound as a matter of disparagement law, there is little reason to suppose that if state law continues to control the underlying cause of action, federal law should control this particular division of responsibility for proof. It does not seem an undue imposition for state law to include the basic questions of validity and infringement as part of the good faith privilege.

Recognition of a good faith privilege, finally, must mean that the state tort remedy is frequently less effective protection than a declaratory judgment action in which the issues of validity and infringement must be squarely decided. See H. Trautman, *Federal Right Jurisdiction and the Declaratory Remedy*, 7 VAND. L. REV. 445, 465 n.95 (1955).

ate even if express contractual dealings in patents remain subject to state law.²⁴³

H. DIRECT STATE REGULATION

There has been no difficulty whatever in concluding that state law may control the use of patented inventions as such.²⁴⁴ During the second half of the 19th century, however, states reacted to widespread fraudulent practices by going beyond this simple point to attempt direct regulation of patent licensing and assignment transactions. Only a few of the statutes remain in force today and they are apparently largely ignored.²⁴⁵ Their history, however, is of considerable contemporary interest as a bridge to direct discussion of the role state law should play today in governing patent contracts. For, after state and lower federal courts had repeatedly split on the validity of these statutes,²⁴⁶ the Supreme Court upheld them on grounds which strongly suggest that Congress should take the lead in reaching any decision to preempt state law.

The statute involved in the leading decision made it unlawful to sell any patent right in Kansas without first filing with the clerk of the district court of the county in which the sale was made a copy of the patent and an affidavit of its genuineness and authority to sell. It further required that anyone taking a written obligation for a patent right insert the words

243. State law may become entangled with patents in a variety of other tort contexts so esoteric as to deserve only footnote mention. See, e.g., *Zalkind v. Scheinman*, 139 F.2d 895 (2d Cir. 1943), cert. denied, 322 U.S. 738 (1944) (state law controls claim for wrongfully delaying issuance of patent by Patent Office); *American Securit Co. v. Shatterproof Glass Corp.*, 166 F. Supp. 813, 825 (D. Del. 1958), aff'd, 268 F.2d 769 (3d Cir.), cert. denied, 361 U.S. 902 (1959) (state law controls claim that plaintiff was fraudulently induced to forego asserting its patent rights against the defendant); *Misani v. Ortho Pharmaceutical Corp.*, 44 N.J. 552, 210 A.2d 609, app. dismissed & cert. denied, 382 U.S. 203 (1965) (raising possibility of defamation claim for wrongfully naming someone other than the true inventor as inventor in a patent application).

244. E.g., *Patterson v. Kentucky*, 97 U.S. 501 (1878). See also *Webber v. Virginia*, 103 U.S. 344 (1881).

245. See, e.g., 4 A. DELLER, *DELLER'S WALKER ON PATENTS* § 222 (2d ed. 1965); R. ELLIS, *PATENT ASSIGNMENTS* 301-08 (3d ed. 1955).

Particularly complex dealings in patents may also be subject to regulation by state "blue sky" laws. E.g., *People v. Shafer*, 130 Cal. App. 74, 19 P.2d 861 (1933); Weisberger, *State Control Over Patent Rights and Patented Articles*, 20 J. PAT. OFF. Soc'y 183, 259-60 (1938). Cf. BLUE SKY L. REP. ¶ 1681.

246. The story is told in full detail in Weisberger, *supra* note 245.

"given for a patent right" above the signature of the maker. The ruling of validity was rested on the ground that although Congress might well preempt all regulation of patent assignments, its statutes relating to assignments did not indicate any intention to do so.²⁴⁷ Enactment of special legislation singling out patent transactions was further found not to be an unreasonable discrimination against federally created rights since the states had reasonable grounds to believe that there were particular dangers of fraud not involved with the sale of other sorts of property.

Congressional enactments have not changed significantly to the present day insofar as concern is focused directly on regulation of patent contracts. Judicial perceptions of the role of patents in a competitive economy, and even of the role of state law with respect to regulating the competitive order, however, have changed considerably. Now that the role of state law in regulating patent transactions has been described and traced to its origins, there remains only the prescriptive question: should the courts, or should Congress, react to changing views of the patent system to preempt state law in favor of a federal law of patent transactions?

III. FEDERAL PREEMPTION OF PATENT AGREEMENTS LAW

A. GENERAL APPROACH

Prescriptions for the desirable relationships between state and federal law are strongly affected by the perspectives of federalism from which the task is approached. Explicit confession of individual premises thus seems an appropriate preface to any suggested diagnosis and cure. The following general statement is meant to serve as such a warning, as well as an identification of the possible lines of analysis which seem rather clearly unavailable to resolve the choice between a federal or state law of patent agreements.

1. *Deference to State Law*

State regulatory competence is superseded by force of the federal Constitution alone in only a few fields. By and large, the mere existence of potential but unexercised federal power to

247. *Allen v. Riley*, 203 U.S. 347 (1906). See also *Ozan Lbr. Co. v. Union County Nat'l Bank*, 207 U.S. 251 (1907); *John Woods & Sons v. Carl*, 203 U.S. 358 (1906).

regulate has been found to leave the field free for state control. The primary role occupied by state law with respect to regulating or facilitating the major portion of human conduct, indeed, gives rise to a principle that state law should be superseded only for good reason.²⁴⁸ As the Supreme Court recently noted, "whether latent federal power should be exercised to displace state law is primarily a decision for Congress."²⁴⁹

This presumption of deference to state law has meant that even when federal power is exercised in some way, it may often incorporate state law to control various aspects of situations which could readily be federalized. Such incorporation of state law is accomplished both by statutory provision and by judicial decision for a wide variety of reasons. At times deference is due to a recognition that state law has unusually important claims to particular areas such as family relationships and property arrangements integrated with family relationships.²⁵⁰ More generally, incorporation may rest on a desire to integrate federal programs as nearly as possible with the ongoing governance of daily transactions by state law. The purpose might be either to avoid confusion and uncertainty, to respect specific state policy judgments, or even to honor a more abstract principle that it is desirable to subject the sovereign to the same duties as are owed by private citizens.²⁵¹ At the extreme, fed-

248. See, e.g., H. M. Hart, Jr., *The Relations Between State and Federal Law*, 54 COLUM. L. REV. 489, 497 (1954); Mishkin, *The Variousness of "Federal Law": Competence and Discretion in the Choice of National and State Rules For Decision*, 105 U. PA. L. REV. 797, 814 n.64 (1957); Note, *The Federal Common Law*, 82 HARV. L. REV. 1512 (1969); Note, *The Competence of Federal Courts To Formulate Rules of Decision*, 77 HARV. L. REV. 1084, 1085-86 (1964).

It may be possible to find some support for this presumption in the unsatisfactorily ambiguous provisions of the Rules of Decision Act, 28 U.S.C. § 1652 (1970). The most energetic statement of this view is found in Note, *Clearfield: Clouded Field of Federal Common Law*, 53 COLUM. L. REV. 991 (1953).

249. *Wallis v. Pan American Petrol. Corp.*, 384 U.S. 63, 68 (1966).

250. E.g., *United States v. Yazell*, 382 U.S. 341 (1966) (Court expressly refrained from determining whether state law governs of its own force or by incorporation into federal law); *De Sylva v. Ballentine*, 351 U.S. 570 (1957). Cf. *Jerry Vogel Music Co. v. Edward B. Marks Music Corp.*, 425 F.2d 834 (2d Cir. 1969).

That federal law may nonetheless override state control of family-property relationships is demonstrated by *Yiatchos v. Yiatchos*, 376 U.S. 306 (1964); *Free v. Bland*, 369 U.S. 663 (1962).

251. The desire to respect specific state policy judgments may be reflected by such arrangements as the subjection of branching rights of national banks to state law. E.g., *Howell v. Citizens First Nat'l Bank*, 385 F.2d 528 (3d Cir. 1967) (nicely illustrating the federal measure

eral law may adopt state law simply as a means of providing the states with a more effective enforcement machinery than they are able to provide themselves.²⁵²

State law may also be incorporated into federal law as a means of supplementing inadequacies or gaps in the particular federal scheme.²⁵³ A simple example is provided by the frequent recourse to state statutes of limitations to govern federal causes of action created without specific limitations periods;²⁵⁴ in this area it would obviously be difficult for federal courts to create the necessarily arbitrary periods as a matter of decisional law.²⁵⁵ More bizarre examples exist as well; perhaps the most extreme is provided by the provisions of the Civil Rights Act that so far as the laws of the United States are not adapted to preserving persons in their civil rights or do not furnish suitable remedies or criminal penalties, state law is to be adopted.²⁵⁶

Specific instances of reference to state law may of course rest on a mixture of reasons. The constant reference of federal tax law to state law for creation and control of the relationships which give rise to federal tax liability, for instance, may rest

of the extent to which state law is incorporated). The desire to place the federal government in substantially the same position as private actors for the protection of those injured by its activities may in part underlie the express incorporation of state law into the Federal Tort Claims Act. See 28 U.S.C. §§ 1346(b), 2674 (1970).

A combination of these various purposes is reflected in *Transamerica Ins. Co. v. Red Top Metal, Inc.*, 384 F.2d 752 (5th Cir. 1967), which adopted state law to measure rights under the Miller Act, 40 U.S.C. § 270(a)-(d) (1970), because of a desire to provide a substitute protection to suppliers comparable to the protection of state lien laws and to integrate the operation of the federal program with the daily routine activities of citizens.

252. An illustration of classic proportions is provided by *United States v. Howard*, 352 U.S. 212 (1957). The Federal Black Bass Act prohibits transporting any fish out of any state if the transportation would violate state law. In *Howard*, the Court determined that the federal statute is violated if transportation of the fish is prohibited by state administrative regulations.

253. See H. M. Hart, Jr., *The Relations Between State and Federal Law*, 54 COLUM. L. REV. 489, 498 (1954): "... Congress rarely enacts a complete and self-sufficient body of federal law. The federal statutes are full of references, both explicit and implicit, to the law of some state." Compare *Rodrigue v. Aetna Cas. & Sur. Co.*, 395 U.S. 352 (1969).

254. E.g., *UAW v. Hoosier Cardinal Corp.*, 383 U.S. 696 (1966).

255. See Mishkin, *The Vagueness of "Federal Law": Competence and Discretion in the Choice of National and State Rules for Decision*, 105 U. PA. L. REV. 797, 804 (1957).

256. 42 U.S.C. § 1988 (1970). See *Hesseltger v. Reilly*, 440 F.2d 931 (9th Cir. 1971); Note, *Developing Governmental Liability Under 42 U.S.C. § 1983*, 55 MINN. L. REV. 1201, 1214-22 (1971).

among other things on the desires to integrate federal law with state regulation as far as possible, to avoid the need for creating uniform federal rules on all of the enormous variety of subjects which affect tax liability, and to equalize as far as possible the impact of federal taxes on the widely various arrangements which may result from state property and family law.²⁵⁷

Patent agreements might be thought to fall within some of these special reasons for honoring state law. The specific arguments in favor of state law will be addressed below; for the moment, it should suffice to reiterate the basic premise that state law should control unless some adequate contrary reason appears.

2. *Preemption of State Law*

Notwithstanding the general policy of deference to state law, federal law has of necessity superseded state law in a wide variety of circumstances. Ordinarily, the outer limit of federal preemption is the maximum reach of power in the political branches of the federal government.²⁵⁸ Actual preemption determinations, however, are usually based on some more concrete conflict with rather direct provisions of federal law or

257. The citations are so numerous that a potpourri of personal favorites should suffice. General restatement and illustration of the basic principles of reliance on state law and of ready resort to uniform federal rules to supersede state law after it has been used to define the basic relationships may be found in *United States v. Mitchell*, 403 U.S. 190, 197, 204 (1971).

The ease with which judges eager to protect the federal fisc may thwart attempted integration with state law is shown clearly in *United States v. Estate of Donnelly*, 397 U.S. 286 (1970). The converse problems created by the willingness of state judges to provide rulings sought only for favorable tax consequences are suggested by the protective response in *Commissioner v. Estate of Bosch*, 387 U.S. 456 (1967).

At times, reliance on state law may result in differences in federal tax treatment resting more on the abstract theoretical development of state rules than on practical differences in consequence. Thus in *Connecticut Bank & Trust Co. v. United States*, 330 F. Supp. 997 (D. Conn. 1971), proceeds of an action found to have been settled under the Connecticut wrongful death act were included in the decedent's estate because the state statute rests on a survival theory of recovery on the claim of the decedent, and recovery passes under his will or the laws of intestate succession. Since it seems unlikely that many people affirmatively plan disposition of the proceeds of a wrongful death action, reliance on this feature to impose estate taxes on recoveries in a few states, but not in others, seems to create purposeless differences.

258. See Hill, *The Law-Making Power of the Federal Courts: Constitutional Preemption*, 67 COLUM. L. REV. 1024, 1070 (1967).

with an express or implied Congressional intent to "occupy" a more or less vaguely delimited "field" to the exclusion of any additional regulation.²⁵⁹

Reliance on supposed Congressional intent as a basis for federalizing the law of patent agreements is not now possible. The process by which state law was clearly recognized has been set out at length above. Specific reminder need be made only of the express determination, long ago, that Congress has not yet enacted a statute depriving the states of power to directly regulate patent licenses and assignments.²⁶⁰ No subsequent Congressional action provides any basis for supposing that Congress has changed its intentions, although it may be that the lack of Congressional action in so exotic an area provides scant support for an argument that Congress specifically intends to continue the present scheme of things.

Inability to rest decision on the comfortable pillow of imputed Congressional intent does not preclude federalization. One obvious path to this result is direct Congressional enactment; in the end, that will be the recommended result. Congress must weigh the same considerations for and against federal takeover as would be weighed by the courts; it has the unique additional advantage of being able to weigh them in a sensitive political scale instead of a judicial scale which must start with a heavy weight of presumed legitimacy on the pan of state law. Judicial preemption is nonetheless possible, although such direct consideration as is shown in recent decisions declines to take any such step.²⁶¹ The actual roles played in a

259. General statements in the area of federal common law are provided by Friendly, *In Praise of Erie—And of the New Federal Common Law*, 39 N.Y.U.L. Rev. 383, 407 (1964); Hill, *supra* note 258, at 1037-38; Mishkin, *The Variousness of "Federal Law": Competence and Discretion in the Choice of National and State Rules For Decision*, 105 U. PA. L. Rev. 797, 800 (1957).

Selective citation from the vast body of decisions in which state regulation is simply found to have been preempted without replacement by a body of federal common law as such, would be a fatuously misleading introduction to an area which has yet to meet a definitive generalized statement.

260. *Allen v. Riley*, 203 U.S. 347 (1906).

261. The only directly applicable decision is *Farmland Irrigation Co. v. Dopplmaier*, 48 Cal. 2d 208, 308 P.2d 732 (1957). In *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150 (2d Cir.), *cert. denied*, 393 U.S. 826 (1968), the court refused to develop a federal common law to govern copyright contracts. Similarly, federal common law was held unavailable to control an attempt to rescind a patent license agreement on the ground that it had been procured on the basis of a judgment obtained by bribery of a federal judge. See *William Whitman Co. v.*

competitive economy by patents and agreements affecting patents may have changed significantly since the original allocations of competence were made. Certainly judicial perceptions of those roles have changed considerably. Just as certainly, federal law has crept ever closer to the heartland of patent agreements by changing the framework into which such agreements must be fit. At a minimum it would not be clearly improper for courts to conclude that the decisions of yesteryear should be displaced.

Whether preemption results from Congressional or judicial action, it will require creation of a detailed federal law of patent agreements. If the courts act on their own, the federal law will perforce be federal common law. In the past, federal courts have created areas of federal common law, supreme over state law, for a variety of reasons. Although identification of the major lines of decision in terms of "areas" does not describe either the reasons or the limits of such authority, it should suffice for present purposes to note that such common law has generally been recognized in four major areas.²⁶² Federal courts have declared their competence to create decisional law controlling various matters involving relations with foreign countries, involving potential conflicts between the direct interests of different states,²⁶³ deriving from a grant of jurisdiction to the federal courts, or governing transactions to which the United States is somehow a party.²⁶⁴ Simple statement suffices because none of these theories can apply to patent agreements.

Beyond these recognized areas, resort may be had to more generalized principles for finding a need to supersede state law without relying on a pretense that Congress has at some time perceived the need. The following three sections will focus on the major possible theories: 1) that implementation of the policies implicit in the exclusivity of federal infringement juris-

Universal Oil Prods. Co., 125 F. Supp. 137 (D. Del. 1954).

A brief statement of one possible reason for preferring federal common law is provided in Chisum, *The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*, 46 WASH. L. REV. 633, 665 n.132 (1971).

262. A lengthy development of these four areas is provided by Hill, *The Law-Making Power of the Federal Courts: Constitutional Preemption*, 67 COLUM. L. REV. 1024 (1967).

263. *But cf.* Ohio v. Wyandotte Chem. Corp., 401 U.S. 493 (1971).

264. An example of the possibility that state legislatures may be eager to protect their citizens against application of the notions of federal judges in transactions involving the United States is provided by United States v. Hext, 444 F.2d 804, 809 (5th Cir. 1971).

diction requires federal control, 2) that the same result follows from the need to provide a coherent body of uniform doctrine, and 3) that continued state control must intrude unduly on important considerations of good, as well as merely uniform, patent agreements law. Offsetting these arguments is the danger that federal law could not be satisfactorily integrated with surrounding state law and the relationships created by it, or that it might impose undue burdens on the federal courts. These subjects deserve separate statement before the final weighing is undertaken. The discussion will not distinguish between judicial and Congressional preemption until the concluding section. As already noted, the considerations are largely the same, and there is little basis for preferring an attempt at legislative codification to a federal common law of patent agreements.

One final prefatory comment remains. It has frequently been feared that decisions to create federal common law have been followed by unduly timid development of its doctrines.²⁶⁵ Recent Supreme Court decisions indicate that more confidence can now be placed in an active judicial concern to function in the most creative common law traditions.²⁶⁶ Whatever else may be said, it is beyond dispute that patent agreements should be made subject to federal common law only if the federal courts are prepared to work actively and imaginatively in developing a sound body of precedent.

B. THE IMPERATIVE OF EXCLUSIVITY

The historical development of exclusive federal infringement jurisdiction has been traced earlier.²⁶⁷ The purposes of uniformity and expertise which presumably provide at least part of the reason for making the federal jurisdiction exclusive have not been realized in any convincing fashion. Patents suffer widely different mortality rates in the different judicial circuits,²⁶⁸ and it seems safe to assume that this lack of uniformity

265. *E.g.*, H. M. Hart, Jr., *The Relations Between State and Federal Law*, 54 COLUM. L. REV. 489, 534 (1954); Hill, *The Law-Making Power of the Federal Courts: Constitutional Preemption*, 67 COLUM. L. REV. 1024 (1967).

266. *E.g.*, *Bivens v. Six Unknown Named Agents*, 403 U.S. 388 (1971); *Moragne v. States Marine Lines, Inc.*, 398 U.S. 375 (1970).

267. See Part I(A)(1) *supra*.

268. See Massel, *The Patent System and Economic Development*, 46 N.Y.U.L. REV. 486, 491-92 (1971). The Eighth Circuit has recently recognized its current harshness on patent validity. See *Woodstream Corp. v. Herter's, Inc.*, 446 F.2d 1143, 1150 (8th Cir. 1971). A more sanguine view that the federal courts generally decide comparable

suggests, in addition, a lack of uniform development of the desired expertness.

Probably the only fully effective way to achieve genuine expertise and uniformity would be to accept one of the recurring proposals to create a specialized tribunal devoted solely to patent cases—certainly at an appellate level, and perhaps at a trial level as well.²⁶⁹ Although the legal doctrines involved in patent litigation are subject to understanding by any judge with even moderate intuition of the difficulty of the underlying inventive and innovative arrangements, actual application to particular areas of highly specialized knowledge demands talents and experience which few can claim. More fundamentally, the highly subjective nature of the key judgment of obviousness²⁷⁰ means that decision must be greatly affected by the trier's perceptions of the importance and values of the patent system. The arguments against creation of a specialized patent tribunal, however, are very strong; at their core lie the propositions that such an isolation of patent law would cause severe distortions and would disrupt the acceptability of the patent system and that judging itself requires an expertise which could not be fully developed without exposure to the broad range of litigation.²⁷¹

Rejection of the possibility of a specialized patent court does not lead automatically to the conclusion that there is no remaining force in the statutory policy of exclusivity. Fifty state court systems might develop even broader disparities than occur among 11 judicial circuits; legions of state trial judges would surely have less opportunity to develop even occasional patent expertise than the far more restricted numbers of federal district judges.

Beyond the interests of litigants, moreover, lie the policies of achieving a uniformly expert measurement of the validity of outstanding patents. The Supreme Court has made no secret of the duty of the federal courts to apply standards of patentability far higher than the standards often applied by the

issues in comparable ways was expressed several years ago by Judge Evans. See Evans, *Shall the United States Have a Special Patent Court of Appeals?*, 36 *ILL. L. REV. (Nw. U.L. Rev.)* 643 (1942).

269. An example of past proposals may be found in S. REP. NO. 1367, 75th Cong., 3d Sess. et. seq. (1938) (reprinted in 20 *J. PAT. OFF. SOC'Y* 319 (1938)).

270. 35 U.S.C. § 103 (1970).

271. A beautiful terse statement is provided by Rifkind, *A Special Court for Patent Litigation? The Danger of a Specialized Judiciary*, 37 *A.B.A.J.* 425 (1951).

Patent Office.²⁷² This hostility has been carried far enough that many would find more than picturesque simile in the statement that the statutory presumption of patent validity "is about as formidable as a silk screen against a machine gun."²⁷³ Right or wrong, it seems not unlikely that many state courts would be beguiled by the instinctive reaction that if Congress has created a patent system pursuant to express Constitutional authorization, there must be some reason for it and therefore it should be received hospitably. If the public interest in enforcing high standards of nonobviousness is as great as the Supreme Court believes, this danger represents a strong argument that the policy of federal exclusivity should be both preserved and effectively enforced by means calculated to remove questions of patent validity and infringement from the hands of state courts.

Granting that the implied purposes of exclusivity represent a strong interest, however, does not entail any significant support for the argument that the law of patent agreements should be federalized. The conclusion that agreements not to infringe should be preempted follows easily from the premise of exclusivity as already shown.²⁷⁴ State court handling of litigation involving other forms of patent agreement may go on unabated while ensuring federal consideration of all questions of patent validity or infringement by providing for removal at the behest of either party whenever such questions are raised in state court.²⁷⁵ It would even be possible to provide for automatic mandatory removal if the public interest were thought to override the simple convenience and wishes of the litigants.²⁷⁶ Such legislative action is so much easier to develop and to administer than the more complex possibilities open to the federal courts by decisional development that it is by all odds the best

272. *Graham v. John Deere Co.*, 383 U.S. 1, 18-19 (1966).

273. Fortas, *The Patent System in Distress*, 14 *IDEA* 571, 572 (1971). Judicial approaches to the presumption are still varied even in statements as to its weight. *E.g.*, *Woodstream Corp. v. Herter's, Inc.*, 446 F.2d 1143, 1149 n.4 (8th Cir. 1971); *Kardulas v. Florida Mach. Prods. Co.*, 438 F.2d 1118, 1124 (5th Cir. 1971).

274. See Part II(E) *supra*.

275. See Part I(C) (2) *supra*.

276. Mandatory removal is possible; there is nonetheless little reason to suppose that if the adversary interests of the litigants suggest to both sides that the cause is better served in the state courts, the public interest requires that that judgment be ignored. The greater inconvenience which might be encountered in a more distant federal court, indeed, might mean that the case would be less effectively presented and hence less effectively decided.

method of reform if the policies of exclusivity are thought sufficiently important.²⁷⁷

Exclusive federal infringement jurisdiction, in short, does not provide any strong support for federalization of patent agreements law. Nonetheless, if other reasons for displacing state law appear, the displacement would provide some added support for the policies inherent in the current rule of exclusivity.

C. UNIFORMITY

Uniformity, like motherhood, has strong traditional appeals for support. Patent licensing is unquestionably a very widespread activity.²⁷⁸ Assignments, co-owner agreements and other possible arrangements are likewise common. Application of peculiar doctrines of state law could conceivably intrude significantly on the value of patent rights and on the ability of patent owners to benefit the public by securing rapid, broad-scale implementation of the patented inventions. Simple uncertainty as to which state's law might apply to any given transaction could prove debilitating, particularly as choice of law doctrine develops further away from the arbitrary but old familiar rules. International arrangements might be significantly impeded by the absence of a unitary domestic law. It is easy to imagine positive benefits resulting from a uniform body of federal law designed to ensure that patents may be effectively exploited to the optimum point of benefit to the patent owner and to society. Among the areas on which uniformity could be easily attained and which closely touch upon the important core of patent exploitation are such doctrines as the parol evidence rule, fraudulent procurement of the patent agreement, assignability of rights under the agreement, failure of consideration and eviction, the need for a written memorial of agreement, implied warranties, and rights to terminate for nonperformance.

Despite these theoretical attractions, it seems a safe inference that little practical difficulty has resulted from the present application of potentially diverse state law. There is no evidence of any unhappiness or concern on the part of patent practitioners or even patent writers. Several reasons for this lack

277. Compare Note, *The Jurisdiction of State Courts Over Cases Involving Patents*, 31 COLUM. L. REV. 461, 468 (1931) (suggesting that the time may be too late to devise judicial solutions).

278. E.g., E. LOVELL, *DOMESTIC LICENSING PRACTICES* 1 (1968).

of actual embarrassment may be guessed. In part, the ability to choose the law of a single state as controlling may ease the burden of any possible uncertainty.²⁷⁹ Additionally, uniformity is intrinsically impossible on a wide range of issues of general contract interpretation which are properly treated as resting on actual or putative "intent" of the parties as drawn from the unique circumstances of the particular arrangement involved.²⁸⁰ Patent lawyers, further, apparently assume that there is little practical problem of divergence between different bodies of state law, assuming that there exists uniform adherence to rules resting in tradition and some amount of persuasive authority.²⁸¹

The virtues of uniformity, moreover, may be as suspect as the virtues of motherhood. Convincing warnings have been sounded against falling into little-minded traps of pedagogical concern for abstract uniformity and symmetry of legal principle at the expense of the opportunities for improvement opened up by developing experience under divergent approaches to such legal facilities as private contract arrangements.²⁸² Federal common law, further, would develop only over relatively long periods of time; uniformity would not spring full-blown from the decision to preempt.²⁸³

Nationwide uniformity, finally, would be achieved at the expense of nonuniformity with the general contract doctrine within individual states. Although it may be fair to expect that persons dealing with such peculiarly federal creatures as patents should be on guard to the possibility that distinctive rules are involved, there are real difficulties arising from the

279. See text accompanying note 137 *supra*.

280. See, e.g., *U.S. Inds., Inc. v. Camco, Inc.*, 277 F.2d 292, 297 (5th Cir. 1960). The court stated that "[i]n the process of interpreting the contract, we are not much aided by the formalized rules applicable to Texas contracts."

281. E.g., 4 A. DELLER, *DELLER'S WALKER ON PATENTS* 411 (1965): "[s]tate and Federal courts have expressed similar doctrines for the construction and interpretation of contracts, assignments, deeds or other documents or instruments."

282. E.g., H. M. Hart, Jr., *The Relations Between State and Federal Law*, 54 COLUM. L. REV. 489, 542 (1954); Mishkin, *The Varioussness of "Federal Law": Competence and Discretion in the Choice of National and State Rules for Decision*, 105 U. PA. L. REV. 797, 813 (1957).

283. E.g., Note, *The Federal Common Law*, 82 HARV. L. REV. 1512, 1519, 1530 (1969). Compare Judge Friendly's thought that it should not be unusually difficult to achieve uniformity in such areas. Friendly, *In Praise of Erie—And of the New Federal Common Law*, 39 N.Y.U.L. REV. 383, 411 (1964).

fact that patent transactions are often intermingled with other transactions.²⁸⁴

Balancing the arguments for and against uniformity does not provide a ready answer. If the arguments for uniformity preponderate, as they seem to, the balance is not overwhelming. Certainly the conclusion does not provide reason enough for a judicial preemption of state law; it lends only moderate support to any proposal for Congressional preemption.

D. FEDERAL OCCUPATION

A federal need for intrinsically good rules may provide a justification for preemption quite apart from the frequently low independent values of uniformity as such. In the case of patent agreements the federal need might be summarily stated along the following lines.

The patent system represents a delicate balance between anti-competitive and competitive features designed to serve both to strengthen competition directly and to achieve by non-competitive means the values sought to be achieved by fostering competition. A patent represents a short term limitation on competition enabling the owner to impose a charge for use of his invention despite the fact that once the discovery has been made there is no further economic "cost" in its free use by everyone. Offsetting this loss are several gains: the reward offered by the patent is a desirable incentive to invent; the protection against imitation afforded is essential support for the investment and risk needed to transfer the patented invention from its initial reduction to practice to successful commercial exploitation; patent protection requires the patentee to pay the price of disclosing his invention so that it may be practiced freely by all following termination of the patent and may stimulate further invention even during the patent's life.

Effective commercial exploitation of patents ordinarily requires that at some point there be an assignment, one or more licenses or some other form of agreement affecting the patent. The federal courts have long since rejected the logic which suggests that the purposes of the patent "monopoly" require that the patentee be allowed to refuse access to his invention except upon consent to whatever terms its value enables him to extort. Instead, a broad body of entirely federal "misuse" doc-

284. See Part III(E) *infra*.

trine has grown up²⁸⁵ reflecting in essence a determination that the desirable goals of the patent system can be attained under rules which qualify the absolute rights of the patentee in order to reduce the sacrifice of competition during the patent's life. A similar process is required to implement the federal patent policies as to the broader range of patent agreement doctrine as well.

To be sure, many terms in patent agreements do not afford the dramatic evidence of economic power afforded by exactions typical of the practices posing past and present misuse problems, such as requirements tying other patent rights or unpatented items to use of the desired patent, extending royalty payments beyond the life of the patent, defining the fields of use permitted to the patentee, forcing "grant-back" of improvement patents, controlling the selling prices of patented items, and extorting extravagant or discriminatory royalties. Nonetheless, the strength of the federal policies in favor of competition and the completely federal nature of patent rights require that federal courts assert control over all terms of patent agreements. Only through such control can there be any assurance that patent exploitation through private agreement will afford the patentee precisely the proper degree of advantage from his patent.

Considerable support can be found for this basic argument in the various decisions in which the Supreme Court has already concluded that state law must give way before the overriding concern of federal law to ensure a proper balance of competitiveness in the national economy. For many years the federal courts have recognized the needs of the patent law as such in controlling state contract doctrine conflicting with it.²⁸⁶ More recently, the pro-competitive policies embodied in the anti-trust statutes have been drawn upon as well to support the conclusion that the need to follow state contract law does not apply

to those areas of judicial decision within which the policy of the law is so dominated by the sweep of federal statutes that legal relations which they affect must be deemed governed by federal law having its source in those statutes, rather than by local law.²⁸⁷

Similarly, it has been recognized that within limits which

285. See Part II(B) (2) *supra*.

286. *E.g.*, *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

287. *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173, 176 (1942). See also, *e.g.*, *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

are still obscure, state law is prohibited from chilling competition by affording protection against imitation similar to the protection provided by patents, but resting on levels of qualitative advance in the art which do not satisfy the requirements of federal law.²⁸⁸

The borders of federal law, in short, are encroaching ever further on the territories of state law which front on the federal patent domain. In large part, this extension has resulted from changed perceptions of the proper balance between competitive and anticompetitive aspects of patent exploitation and from rejection of any notion that the patent owner should be left unfettered control over his own territory. Modern judicial views of the nature and limits of patent rights have emerged long since the time when state law was originally assigned its role. The modern views do indeed suggest that it would be better to oust the states from control of patent agreements unless there are strong contrary reasons or unless legislative views of patent exploitation differ from judicial views. The possible arguments against federalization are all that remain to be examined before turning to the final question of the proper means of effecting preemption if it is in fact desirable.

E. INTEGRATION WITH STATE LAW

Despite the encroachments of federal law, state law continues to govern the vast run of ordinary affairs. It has already been suggested that state law may appropriately be allowed to retain its present role with respect to the ownership of inventions and patents.²⁸⁹ In addition, state law controls a wide variety of relationships touching close upon the patent field, at least in the sense of restricting freedom of competition in the short run for the purpose of serving the long-range interests of the competitive system. Liability rests in state law for misuse of trade secrets or other protectible "ideas" and for such

288. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964). An extreme push of the preemption doctrines reflected in these opinions and in the opinion of Mr. Justice Black in *Lear, Inc. v. Adkins*, 395 U.S. 653, 677 (1969), has been halted, at least for the moment, in *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971).

Recent examinations of the difficulties bequeathed by the cloudy opinions in *Sears* and *Compco*—as they are affectionately known—include Goldstein, *The Competitive Mandate: From Sears to Lear*, 59 CALIF. L. REV. 873 (1971); Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters*, 46 N.Y.U.L. REV. 17 (1971).

289. See Part II(F) *supra*.

broader areas of misappropriation of trade values as may remain viable,²⁹⁰ for the obligations of employees to share their discoveries with their employers and not to compete during or after employment, and for the transfer of going businesses and associated "good-will" values. Transactions involving these rights may, and frequently do, involve patent rights as well. Sale of a business, for instance, frequently includes the sale of patent rights; employees are frequently bound to license or assign patents to their employers; trade secrets are often licensed along with patent rights; and so on. If federal law controls the patent aspects of some or all of these transactions, the result is that different sources of law must be sought for different parts of arrangements which are otherwise integrated as a single unit.

One result of this division of competence would be that a court adjudicating controversies growing out of such mixed transactions would necessarily be applying the law of another sovereign. Although this result is undesirable,²⁹¹ it has been tolerable in federal diversity jurisdiction and has been accepted in the patent law areas examined above. Of itself, this result does not weigh strongly against recognition of a federal law of patent agreements.

A far more troubling consequence of this division of competence would be that in planning such transactions, different bodies of law would have to be consulted. This difficulty leads to the conclusions reiterated above that state law should continue to control "property" relationships and employment rights which do not grow out of express agreement. Express agree-

290. See, e.g., *Tape Inds. Ass'n of America v. Younger*, 316 F. Supp. 340 (C.D. Cal. 1970), *app. dismissed*, 401 U.S. 902 (1971); *Capitol Records, Inc. v. Erickson*, 2 Cal. App. 3d 526, 82 Cal. Rptr. 798 (Dist. Ct. App. 1969), *cert. denied*, 398 U.S. 960 (1970).

291. Cf. Mishkin, *The Variousness of "Federal Law": Competence and Discretion in the Choice of National and State Rules for Decision*, 105 U. PA. L. Rev. 797, 826-27 (1957).

If, as proposed below, state courts are left with concurrent jurisdiction over cases involving patent agreements, there may also occur problems involving the extent to which state procedure must give way to federal practice to ensure proper enforcement of federal rights. Cf. *Dice v. Akron, Canton & Youngstown R.R.*, 342 U.S. 359 (1952). By and large, it seems unlikely that there will be much reason to supersede state procedure, particularly since the implied belief in the excellence of federal procedure does not mean that it can achieve better results when thrust into the unwilling hands of state courts more familiar with their own ways of doing things. Cf. H. M. Hart, Jr., *The Relations Between State and Federal Law*, 54 COLUM. L. REV. 489, 508 (1954).

ments of license, assignment, or co-ownership, on the other hand, involve intentional manipulation of patent rights which clearly and obviously derive from federal law. Federal law already imposes significant limitations on these arrangements in the various ways explored above. Parties to such transactions are thus on notice that they must consider federal law and may fairly be required to heed that notice. Governance of express patent agreements by federal law, therefore, does not seem to create untoward difficulties of integration with the body of state law. Preemption in response to the positive reasons advanced above is accordingly a desirable result unless it is thought to impose undue burdens on the federal courts.

F. BURDENS ON FEDERAL COURTS

One final protest might be lodged against arrogation of patent agreements to the hegemony of federal law. The purposes underlying federalization require that federal courts be given at least concurrent jurisdiction over disputes arising out of such agreements.²⁹² Burdening an already heavily laden court system with further work inevitably raises questions about the need to preserve the distinctive character and quality of federal courts against the dilution which could easily result from continued expansion. Several answers suggest that this concern does not weigh heavily in the present situation.

First, although there are no discoverable statistics for either state or federal courts, the absolute volume of patent agreement litigation is apparently not large. Second, much of this litigation can be brought in the federal courts under appropriate use of the jurisdictional doctrines outlined above or through diversity jurisdiction. Third, the uneasy case for exclusive infringement jurisdiction need not be extended to jurisdiction over patent agreement suits. Instead, concurrent jurisdiction, coupled with a right of removal in either party whenever it becomes apparent that a patent agreement issue is involved,

292. Under the current jurisdictional statutes, it is highly likely that federal jurisdiction would rest on 28 U.S.C. § 1331(a) (1970), rather than the exclusive patent jurisdiction conferred by 28 U.S.C. § 1338(a) (1970), particularly if federal law rested on judicial decision alone. See note 101 *supra*. Cf. *Ivy Broadcasting Co. v. American Tel. & Tel. Co.*, 391 F.2d 386 (2d Cir. 1968). The result would be exclusive state court jurisdiction for actions involving less than \$10,000 and concurrent jurisdiction for actions involving more than that jurisdictional amount.

should be sufficient to achieve the development of a good uniform federal law.

No strong reason appears, in short, to offset the persuasive argument that there is a valid purpose to be served by creation of a federal law of patent agreements.

IV. SYNTHESIS AND CONCLUSION

The extended discussion undertaken above has sought to accomplish the primary tasks of description and prescription of the role of state law with respect to patent rights. Description of the present role of state law has suggested that state competence has been recognized largely in the process of allocating jurisdiction to adjudicate between state and federal courts, solidifying along substantially the present lines long before the emergence of present judicial perceptions of the appropriate role of patent rights in maintaining a competitive economy. Prescription for the future role of state law has suggested that on balance, it would be better to allow creation of a body of federal law to control express patent agreements. The final question remains whether it would be better for the courts to take the preemptive step or for the courts to await Congressional action.

Three factors suggest that it would be better for the courts to await Congressional action. First, there is the strong general policy in favor of a political judgment to supersede state law.²⁹³ This policy is particularly strong in the present situation since the admittedly complex relationship between state and federal law²⁹⁴ has been long established without demonstrably bad results. There is no really adequate basis to read into the overall patent scheme a Congressional intent to preempt state law in this area.²⁹⁵

Second, the strength of the argument for preemption rests ultimately on the wisdom of current judicial concerns with limiting the full sweep of private benefit which might be gained from private patent agreements at the expense of the public competitive good. Various legislative proposals are pending which would at least seek to control the future direction of these

293. See Part III(A) *supra*.

294. See H. M. Hart, Jr., *The Relations Between State and Federal Law*, 54 COLUM. L. REV. 489, 527-28 (1954).

295. Cf. Hill, *The Law-Making Power of the Federal Courts: Constitutional Preemption*, 67 COLUM. L. REV. 1024, 1037-38 (1967).

judicial concerns.²⁹⁶ Although such proposals might seem in part to strengthen the basis for federal control of all aspects of express patent agreements,²⁹⁷ there is no reason for the courts to presume this result.

Finally, transition to federal common law might conceivably involve some problems of departure from substantive state rules relied upon in prior transactions. Since there are few clearly developed and distinctive doctrines of state law, and since there is small reason to suppose that federal law would often depart markedly from state law, this danger does not seem great. Nonetheless, legislative action could avoid such problems more easily, as by providing an arbitrary starting point for the new federal law.

Congressional preemption could conceivably take the form of an express code of patent agreements. The present mixed federal and state body of law, however, affords little clear direction for such a code. Instead, the area seems admirably suited for an express creation of concurrent federal jurisdiction, with a clear directive that the federal courts are to create a body of federal common law binding on state as well as federal courts.²⁹⁸ Long experience with the creative federal law-

296. S. 643, § 301, 92d Cong., 1st Sess. (1971) provides for continued state regulation of "contractual or other rights or obligations, not in the nature of patent rights, with regard to inventions or discoveries, whether or not subject to this title." This provision would be rewritten more exuberantly and express statutory provisions for misuse doctrine would be added by amendments proposed by Senator Scott. See 117 CONG. REC. S. 3400 (March 19, 1971) (Amendments 23, 24).

297. Senator Scott's Amendment 24, *supra* note 296, would add an express provision to the Patent Code stating the right of a patent owner or applicant to

waive or grant, by license or otherwise, the whole or any part of his rights under a patent or patent application and for the whole or any part of the United States, by exclusive or non-exclusive arrangement with a party or parties of his selection.

Such legislation would at least provide a clear statutory foundation for license agreements and might be thought to strengthen the implication that federal courts should be able to regulate the incidents of such agreements.

298. Judge Friendly has lauded this legislative technique as one which

permits overworked federal legislators, who must vote with one eye on the clock and the other on the next election, so easily to transfer a part of their load to federal judges, who have time for reflection and freedom from fear as to tenure and are ready, even eager, to resume their historic law-making function.

Friendly, *In Praise of Erie—And of the New Federal Common Law*, 39 N.Y.U.L. REV. 383, 419 (1964).

In this context, there seems no reason to fear that such a command would be found an overly broad delegation of legislative powers to

making function might in time provide a basis for a legislative restatement of the law; at present, the course of judicial law-making seems far better.

The proposed legislation could be included in either the Judicial Code or the Patent Code. Despite the aesthetic losses from cluttering the Judicial Code with specific jurisdictional provisions, integration with related problems suggests this might be the better course, particularly if federal jurisdiction of infringement suits is to be kept exclusive. A single statutory section could provide the exclusive infringement jurisdiction and a concurrent patent agreement jurisdiction. Explicit provision should be made for control by a common federal rule of decision wherever the case is tried. The revamped removal provisions proposed by the American Law Institute²⁹⁹ should then be sufficient to provide for access to the federal courts in express patent agreement cases. In view of the uncertainties in those provisions, however, it would be better to add a further provision allowing removal to federal courts, regardless of the amount in controversy, of any state court litigation not involving express patent agreements in which questions as to the validity or scope of any patent are involved.

the courts. See Hill, *The Law-Making Power of the Federal Courts: Constitutional Preemption*, 67 COLUM. L. REV. 1024, 1030 n.33 (1967). For there is an ample body of specific patent agreement law and general contract law to provide guidance in the general nature of the judicial duty.

Some specific matters, of course, require legislative action if they are to be accomplished at all. If it is thought desirable to require written evidence of license agreements, for instance, it would be difficult to depend on courts to create a judicial statute of frauds.

299. ALI, *STUDY OF THE DIVISION OF JURISDICTION BETWEEN STATE AND FEDERAL COURTS* § 1312(a) (1968). See note 113 *supra*.